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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 19b-4

Proposed Rules

By

Public Company Accounting Oversight Board

1:25

In accordance with Rule 19b-4 under the
Securities Exchange Act of 1934

1. Text of the Proposed Rules

(a) Pursuant to the provisions of Section 107(b) of the Sarbanes-Oxley Act of 2002 ("Act"), the Public Company Accounting Oversight Board ("Board" or "PCAOB") is filing with the Securities and Exchange Commission ("SEC" or "Commission") proposed amendments to improve the transparency of audits: rules to require disclosure of certain audit participants on a new PCAOB form (Rule 3210, Amendments, and Rule 3211, Auditor Reporting of Certain Audit Participants) and related amendments to auditing standards (collectively, the "proposed rules"). The proposed rules are attached as Exhibit A to this filing. In addition, the Board is also requesting the SEC's approval, pursuant to Section 103(a)(3)(C) of the Act, of the application of these proposed rules to audits of emerging growth companies ("EGCs"), as that term is defined in Section 3(a)(80) of the Securities Exchange Act of 1934 ("Exchange Act"). Section 104 of the Jumpstart Our Business Startups Act provides that any additional rules adopted by the Board subsequent to April 5, 2012, do not apply to the audits of EGCs unless the SEC "determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation." See Exhibit 3.

(b) The proposed rules would amend AS 3101 (currently AU sec. 508), Reports on Audited Financial Statements; and AS 1205 (currently AU sec. 543), Part of Audit Performed by Other Independent Auditors.

(c) Not applicable.

2. Procedures of the Board

(a) The Board approved the proposed rules and authorized them for filing with the SEC at its open meeting on December 15, 2015. No other action by the Board is necessary for the filing of the proposed rules.

(b) Questions regarding this rule filing may be directed to Jennifer Rand, Deputy Chief Auditor (202-207-9206, randj@pcaobus.org); Jessica Watts, Associate Chief Auditor (202-207-9376, wattsj@pcaobus.org); Karen Wiedemann, Associate Counsel (202-591-4411, wiedemannk@pcaobus.org); Lisa Calandriello, Assistant Chief Auditor (202-207-9337, calandriellol@pcaobus.org); or Vincent Meehan, Assistant General Counsel (202-591-4208, meehanv@pcaobus.org).

3. Board's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rules Change

(a) Purpose

The Board is adopting new rules and related amendments to its auditing standards that will improve transparency regarding the engagement partner and other accounting firms that took part in the audit. The rules will require disclosure of the name of the engagement partner and information about other accounting firms on new PCAOB Form AP, Auditor Reporting of Certain Audit Participants ("Form AP"). Under the final rules, firms will be required to file a new PCAOB form for each issuer audit, disclosing, among other things: the name of the engagement partner; the name, location, and extent of participation of each other accounting firm participating in the audit whose work constituted at least 5% of total audit hours; and the number and aggregate extent of participation of all other accounting firms participating in the audit whose individual participation was less than 5% of total audit hours. The information will be filed on Form AP, Auditor Reporting of Certain Audit Participants, and will be available in a searchable database on the Board's website.

As described in the release, see Exhibit 3, the Board is adopting two new rules (Rule 3210, Amendments, and Rule 3211, Auditor Reporting of Certain Audit Participants) and one new form (Form AP). These are disclosure requirements and do not change the performance obligations of the auditor in conducting the audit. The Board is also adopting amendments to AS 3101 (currently AU sec. 508), Reports on Audited Financial Statements, and AS 1205 (currently AU sec. 543) related to voluntary disclosure in the auditor's report.

(b) Statutory Basis

The statutory basis for the proposed rules is Title I of the Act.

4. Board's Statement on Burden on Competition

Not applicable. The Board's consideration of the economic impacts of the proposed rules is discussed in Exhibit 1.

5. Board's Statement on Comments on the Proposed Rules Change Received from Members, Participants, or Others

The Board initially released the proposed rules for public comment on July 28, 2009, October 11, 2011, December 4, 2013, and June 30, 2015. See Exhibit 2(a)(A). The Board received 184 written comment letters (including one letter which was withdrawn) relating to its initial proposed rules. See Exhibits 2(a)(B) and 2(a)(C). The Board's Standing Advisory Group and Investor Advisory Group also discussed the proposed rules at meetings on February 16, 2005, June 21, 2007, October 23, 2008, October 14, 2009, November 9, 2011, November 10, 2011, May 15, 2013, October 16, 2013, and June 18, 2015. See Exhibit 2(a)(D).

6. Extension of Time Period for Commission Action

The Board does not consent to an extension of the time period specified in Section 19(b)(2) of the Exchange Act.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rules Based on Rules of Another Board or of the Commission

Not applicable.

9. Exhibits

Exhibit A—	Text of the Proposed Rules.
Exhibit 1—	Form of Notice of Proposed Rules for Publication in the Federal Register.
Exhibit 2(a)(A)—	PCAOB Release No. 2009-005 (Concept Release).
	PCAOB Release No. 2011-007 (Proposed Rule).
	PCAOB Release No. 2013-009 (Reproposed Rule).
	PCAOB Release No. 2015-004 (Supplemental Request).
Exhibit 2(a)(B)—	Alphabetical List of Comments on the Rules Proposed in PCAOB Release Nos. 2009-005, 2011-007, 2013-009, and 2015-004.
Exhibit 2(a)(C)—	Written Comments on the Rules Proposed in PCAOB Release Nos. 2009-005, 2011-007, 2013-009, and 2015-004.

Exhibit 2(a)(D)— Transcripts and Slides from SAG or IAG meetings on Feb. 16, 2005, June 21, 2007, Oct. 23, 2008, Oct. 14, 2009, Nov. 9, 2011, Nov. 10, 2011, May 15, 2013, Oct. 16, 2013, and June 18, 2015.

Exhibit 3— PCAOB Release No. 2015-008 (Adopting Release).

10. Signatures

Pursuant to the requirements of the Act and the Securities Exchange Act, as amended, the Board has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Public Company Accounting Oversight Board

By: ______________________
Phoebe W. Brown
Secretary

January 29, 2016

EXHIBIT A—TEXT OF THE PROPOSED RULES

RULES OF THE BOARD AND AMENDMENTS TO AUDITING STANDARDS

The Board adopts: (i) new Rule 3210, Amendments, and Rule 3211, Auditor Reporting of Certain Audit Participants; (ii) new Form AP, Auditor Reporting of Certain Audit Participants; and (iii) amendments to AS 3101 (currently AU sec. 508), Reports on Audited Financial Statements, and AS 1205 (currently AU sec. 543), Part of the Audit Performed by Other Independent Auditors. The text of these rules, form, and amendments is set forth below.

RULES OF THE BOARD

SECTION 3. AUDITING AND RELATED PROFESSIONAL PRACTICE STANDARDS

Rule 3210. Amendments

The provisions of Rule 2205 concerning amendments shall apply to any Form AP filed pursuant to Rule 3211 as if the submission were a report on Form 3.

Rule 3211. Auditor Reporting of Certain Audit Participants

(a) For each audit report it issues for an issuer, a registered public accounting firm must file with the Board a report on Form AP in accordance with the instructions to that form.

Note 1: A Form AP filing is not required for an audit report of a registered public accounting firm that is referred to by the principal auditor in accordance with AS 1205, Part of the Audit Performed by Other Independent Auditors.

Note 2: Rule 3211 requires the filing of a report on Form AP regarding an audit report only the first time the audit report is included in a document filed with the Commission. Subsequent inclusion of precisely the same audit report in other documents filed with the Commission does not give rise to a requirement to file another Form AP. In the event of any change to the audit report, including any change in the dating of the report, Rule 3211 requires the filing of a new Form AP the first time the revised audit report is included in a document filed with the Commission.

(b) Form AP is deemed to be timely filed if—

1. The form is filed by the 35th day after the date the audit report is first included in a document filed with the Commission; provided, however, that

2. If such document is a registration statement under the Securities Act, the form is filed by the 10th day after the date the audit report is first included in a document filed with the Commission.

(c) Unless directed otherwise by the Board, a registered public accounting firm must file such report electronically with the Board through the Board's Web-based system.

(d) Form AP shall be deemed to be filed on the date that the registered public accounting firm submits a Form AP in accordance with this rule that includes the certification in Part VI of Form AP.

* * * * *

AMENDMENTS TO BOARD FORMS

FORM AP—AUDITOR REPORTING OF CERTAIN AUDIT PARTICIPANTS

GENERAL INSTRUCTIONS

1. Submission of this Report. Effective [insert effective date of Rule 3211], a registered public accounting firm must use this Form to file with the Board reports required by Rule

3211 and to file any amendments to such reports. Unless otherwise directed by the Board, the registered public accounting firm must file this Form electronically with the Board through the Board's Web-based system.

2. Defined Terms. The definitions in the Board's rules apply to this Form. Italicized terms in the instructions to this Form are defined in the Board's rules. In addition, as used in the instructions to this Form, the term "the Firm" means the registered public accounting firm that is filing this Form with the Board; and the term, "other accounting firm" means (i) a registered public accounting firm other than the Firm; or (ii) any other person or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework.

3. When this Report is Considered Filed. A report on Form AP is considered filed on the date the Firm submits to the Board a Form AP in accordance with Rule 3211 that includes the certification required by Part VI of Form AP.

Note 1: A Form AP filing is not required for an audit report of a registered public accounting firm that is referred to by the Firm in accordance with AS 1205, Part of the Audit Performed by Other Independent Auditors.

Note 2: Rule 3211 requires the filing of a report on Form AP regarding an audit report only the first time the audit report is included in a document filed with the Commission. Subsequent inclusion of precisely the same audit report in other documents filed with the Commission does not give rise to a requirement to file another Form AP. In the event of any change to the audit report, including any change in the dating of the report, Rule 3211 requires the filing of a new Form AP the first time the revised audit report is included in a document filed with the Commission.

4. Amendments to this Report. Amendments to Form AP are required to correct information that was incorrect at the time the Form was filed or to provide information that was omitted from the Form and was required to be provided at the time the Form was filed. When filing a Form AP to amend an earlier filed Form AP, the Firm must supply not only the corrected or supplemental information, but it must include in the amended Form AP all information and certifications that were required to be included in the original Form AP. The Firm may access the originally filed Form AP through the Board's Web-based system and make the appropriate amendments without needing to re-enter all other information.

   Note: The Board will designate an amendment to a report on Form AP as a report on "Form AP/A."

5. Rules Governing this Report. In addition to these instructions, Rules 3210 and 3211 govern this Form. Read these rules and the instructions carefully before completing this Form.

6. Language. Information submitted as part of this Form must be in the English language.

7. Partner ID. For purposes of responding to Item 3.1.a.6, the Firm must assign each engagement partner that is responsible for the Firm's issuance of an issuer audit report a 10-digit Partner ID number. The Firm must assign a unique Partner ID number to each such engagement partner and must use the same Partner ID for that engagement partner in every Form AP filed by the Firm that identifies that engagement partner. The Partner ID must begin with the Firm ID—a unique five-digit identifier based on the number assigned to the Firm by the PCAOB—and be followed by a unique series of five digits

assigned by the Firm. When an engagement partner is no longer associated with the Firm, his/her Partner ID must be retired and not reassigned.

If the engagement partner was previously associated with a different registered public accounting firm and had a Partner ID at that previous firm, the Firm must assign a new Partner ID in accordance with the instructions above. The new Firm must report, in Item 3.1.a.6, the new Partner ID and all Partner IDs previously associated with the engagement partner.

> Note: The Firm ID can be found by viewing the firm's summary page on the PCAOB website, where it is displayed parenthetically next to the name of the firm—firm name (XXXXX). For firms that have PCAOB-assigned identifiers with fewer than 5 digits, leading zeroes should be added before the number to make 5 digits, e.g., 99 should be presented as 00099.

PART I—IDENTITY OF THE FIRM

In Part I, the Firm should provide information that is current as of the date of the certification in Part VI.

Item 1.1 Name of the Firm

a. State the legal name of the Firm.

b. If different than its legal name, state the name under which the Firm issued this audit report.

PART II—AMENDMENTS

Item 2.1 Amendments

If this is an amendment to a report previously filed with the Board:

a. Indicate, by checking the box corresponding to this item, that this is an amendment.

b. Identify the specific Part or Item number(s) in this Form (other than this Item 2.1) as to which the Firm's response has changed from that provided in the most recent Form AP or amended Form AP filed by the Firm with respect to an audit report related to the issuer named in Item 3.1.a.1.

PART III—AUDIT CLIENT AND AUDIT REPORT

Item 3.1 Audit Report

a. Provide the following information concerning the issuer for which the Firm issued the audit report—

1. Indicate, by checking the box corresponding to this item, whether the audit client is an issuer other than an employee benefit plan or investment company; an employee benefit plan; or an investment company;
2. The Central Index Key (CIK) number, if any, and Series identifier, if any;
3. The name of the issuer whose financial statements were audited;
4. The date of the audit report;
5. The end date of the most recent period's financial statements identified in the audit report;
6. The name (that is, first and last name, all middle names and suffix, if any) of the engagement partner on the most recent period's audit, his/her Partner ID, and any other Partner IDs by which he/she has been identified on a Form AP filed by a different registered public accounting firm or on a Form AP filed by the Firm at the time when it had a different Firm ID; and
7. The city and state (or, if outside the United States, city and country) of the office of the Firm issuing the audit report.

b. Indicate, by checking the box corresponding to this item, if the most recent period and one or more other periods presented in the financial statements identified in Item 3.1.a.5 were audited during a single audit engagement.

c. In the event of an affirmative response to Item 3.1.b, indicate the periods audited during the single audit engagement for which the individual named in Item 3.1.a.6 served as engagement partner (for example, as of December 31, 20XX and 20X1 and for the two years ended December 31, 20XX).

d. Indicate, by checking the box corresponding to this item, if the audit report was dual-dated pursuant to AS 3110, Dating of the Independent Auditor's Report.

e. In the event of an affirmative response to Item 3.1.d, indicate the date of the dual-dated information and if different from the engagement partner named in Item 3.1.a.6, information about the engagement partner who audited the information within the financial statements to which the dual-dated opinion applies in the same detail as required by Item 3.1.a.6.

Note: In responding to Item 3.1.e, the Firm should provide each date of any dual-dated audit report.

Item 3.2 Other Accounting Firms

Indicate, by checking the box corresponding to this item, if one or more other accounting firms participated in the Firm's audit. If this item is checked, complete Part IV. By checking this box, the Firm is stating that it is responsible for the audits or audit procedures performed by the other accounting firm(s) identified in Part IV and has supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards.

Note: For purposes of Item 3.2, an other accounting firm participated in the Firm's audit if: (1) the Firm assumes responsibility for the work and report of the other accounting firm as described in paragraphs .03-.05 of AS 1205, Part of the Audit Performed by Other Independent Auditors, or (2) the other accounting firm or any of its principals or professional employees was subject to supervision under AS 1201, Supervision of the Audit Engagement.

Item 3.3 Divided Responsibility

Indicate, by checking the box corresponding to this item, if the Firm divided responsibility for the audit in accordance with AS 1205, Part of the Audit Performed by Other Independent Auditors, with one or more other public accounting firm(s). If this item is checked, complete Part V.

PART IV—RESPONSIBILITY FOR THE AUDIT IS NOT DIVIDED

In responding to Part IV, total audit hours in the most recent period's audit should be comprised of hours attributable to: (1) the financial statement audit; (2) reviews pursuant to AS 4105, Reviews of Interim Financial Information; and (3) the audit of internal control over financial reporting pursuant to AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements. Excluded from disclosure and from total audit hours in the most recent period's audit are, respectively, the identity and hours incurred by: (1) the engagement quality reviewer; (2) the person who performed the review pursuant to SEC Practice Section 1000.45 Appendix K; (3) specialists engaged, not employed, by the Firm; (4) an accounting firm performing the audit of the entities in which the issuer has an investment that is accounted for using the equity method; (5) internal auditors, other company personnel, or third parties working under the direction of management or the audit committee who provided direct assistance in the audit of internal control over financial reporting; and (6) internal auditors who provided direct assistance in the audit of the financial statements. Hours incurred in the audit by entities other than other accounting firms are included in the calculation of total audit hours and should be allocated among the Firm and the other accounting firms participating in the audit on the basis of which accounting firm commissioned and directed the applicable work.

Actual audit hours should be used if available. If actual audit hours are unavailable, the Firm may use a reasonable method to estimate the components of this calculation. The Firm should document in its files the method used to estimate hours when actual audit hours are unavailable and the computation of total audit hours on a basis consistent with AS 1215, Audit Documentation. Under AS 1215, the documentation should be in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand the computation of total audit hours and the method used to estimate hours when actual hours were unavailable.

In responding to Part IV, if the financial statements for the most recent period and one or more other periods covered by the audit report identified in Item 3.1.a.4 were audited during a single audit engagement (for example, in a reaudit of a prior period(s)), the calculation should be based on the percentage of audit hours attributed to such firms in relation to the total audit hours for the periods identified in Item 3.1.c.

Indicate, by checking the box, if the percentage of total audit hours will be presented within ranges in Part IV.

Item 4.1 Other Accounting Firm(s) Individually 5% or Greater of Total Audit Hours

a. State the legal name of other accounting firms and the extent of participation in the audit—as a single number or within the appropriate range of the percentage of hours, according to the following list—attributable to the audits or audit procedures performed by such accounting firm in relation to the total hours in the most recent period's audit.

90%-or-more of total audit hours;

80% to less than 90% of total audit hours;

70% to less than 80% of total audit hours;

60% to less than 70% of total audit hours;

50% to less than 60% of total audit hours;

40% to less than 50% of total audit hours;

30% to less than 40% of total audit hours;

20% to less than 30% of total audit hours;

10% to less than 20% of total audit hours; and

5% to less than 10% of total audit hours.

b. For each other accounting firm named, state the city and state (or, if outside the United States, city and country) of the headquarters' office and, if applicable, the other accounting firm's Firm ID.

Note 1: In responding to Items 4.1 and 4.2, the percentage of hours attributable to other accounting firms should be calculated individually for each firm. If the individual participation of one or more other accounting firm(s) is less than 5%, the Firm should complete Item 4.2.

Note 2: In responding to Item 4.1.b, the Firm ID represents a unique five-digit identifier for firms that have a publicly available PCAOB-assigned number.

Item 4.2 Other Accounting Firm(s) Individually Less Than 5% of Total Audit Hours

a. State the number of other accounting firm(s) individually representing less than 5% of total audit hours.

b. Indicate the aggregate percentage of participation of the other accounting firm(s) that individually represented less than 5% of total audit hours by filling in a single number or by selecting the appropriate range as follows:

90%-or-more of total audit hours;

80% to less than 90% of total audit hours;

70% to less than 80% of total audit hours;

60% to less than 70% of total audit hours;

50% to less than 60% of total audit hours;

40% to less than 50% of total audit hours;

30% to less than 40% of total audit hours;

20% to less than 30% of total audit hours;

10% to less than 20% of total audit hours;

5% to less than 10% of total audit hours; and

Less-than-5% of total audit hours.

PART V—RESPONSIBILITY FOR THE AUDIT IS DIVIDED

Item 5.1 Identity of the Other Public Accounting Firm(s) to which the Firm Makes Reference

a. Provide the following information concerning each other public accounting firm the Firm divided responsibility with in the audit—

1. State the legal name of the other public accounting firm and when applicable, the other public accounting firm's Firm ID.

2. State the city and state (or, if outside the United States, city and country) of the office of the other public accounting firm that issued the other audit report.

3. State the magnitude of the portion of the financial statements audited by the other public accounting firm.

Note: In responding to Item 5.1.a.3, the Firm should state the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, as it is described in the audit report in accordance with AS 1205.

PART VI—CERTIFICATION OF THE FIRM

Item 6.1 Signature of Partner or Authorized Officer

This Form must be signed on behalf of the Firm by an authorized partner or officer of the Firm by typing the name of the signatory in the electronic submission. The signer must certify that:

a. The signer is authorized to sign this Form on behalf of the Firm;

b. The signer has reviewed this Form;

c. Based on the signer's knowledge, this Form does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading; and

d. Based on the signer's knowledge, the Firm has not failed to include in this Form any information that is required by the instructions to this Form.

The signature must be accompanied by the signer's title, the capacity in which the signer signed the Form, the date of signature, and the signer's business telephone number and business e-mail address.

* * * * *

AMENDMENTS TO PCAOB AUDITING STANDARDS FOR OPTIONAL DISCLOSURE OF CERTAIN AUDIT PARTICIPANTS IN THE AUDITOR'S REPORT

The amendments below are adopted to PCAOB auditing standards.

AS 3101 (currently AU sec. 508), Reports on Audited Financial Statements

AS 3101 (currently AU sec. 508), Reports on Audited Financial Statements, is amended as follows:

a. Paragraph .09A is added, as follows:

The auditor may include in the auditor's report information regarding the engagement partner and/or other accounting firms participating in the audit that is required to be reported on PCAOB Form AP, Auditor Reporting of Certain Audit Participants. If the auditor decides to provide information about the engagement partner, other accounting firms participating in the audit, or both, the auditor must disclose the following:

a. Engagement partner—the engagement partner's full name as required on Form AP; or

b. Other accounting firms participating in the audit—

i. A statement that the auditor is responsible for the audits or audit procedures performed by the other public accounting firms and has supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards;

ii. Other accounting firms individually contributing 5% or more of total audit hours—for each firm, (1) the firm's legal name, (2) the city and state (or, if outside the United States, city and country) of headquarters' office, and (3) percentage of total audit hours as a single number or within an appropriate range, as is required to be reported on Form AP; and

iii. Other accounting firms individually contributing less than 5% of total audit hours—(1) the number of other accounting firms individually representing less than 5% of total audit hours and (2) the aggregate percentage of total audit hours of such firms as a single number or within an appropriate range, as is required to be reported on Form AP.

*   *   *

<u>AS 1205 (currently AU sec. 543), Part of the Audit Performed by Other Independent Auditors</u>

AS 1205 (currently AU sec. 543), <u>Part of the Audit Performed by Other Independent Auditors</u>, is amended as follows:

a. In paragraph .03, the following phrase is added to the end of the second sentence, ", except as provided in paragraph .04."

b. In paragraph .04, the last sentence is deleted and replaced with the following:

   If the principal auditor decides to take this position, the auditor may include information about the other auditor in the auditor's report pursuant to paragraph .09A of AS 3101, <u>Reports on Audited Financial Statements</u>, but otherwise should not state in its report that part of the audit was made by another auditor.

c. In paragraph .07:

   - The last sentence is deleted.
   - Footnote 3 is deleted.

*   *   *   *   *

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-XXXXX; File No. PCAOB-2016-01)

[Date]

Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Improving the Transparency of Audits: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form and Related Amendments to Auditing Standards

Pursuant to Section 107(b) of the Sarbanes-Oxley Act of 2002 (the "Act" or "Sarbanes-Oxley Act"), notice is hereby given that on January 29, 2016, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") filed with the Securities and Exchange Commission (the "Commission" or "SEC") the proposed rules described in Items I and II below, which items have been prepared by the Board. The Commission is publishing this notice to solicit comments on the proposed rules from interested persons.

I. Board's Statement of the Terms of Substance of the Proposed Rules

On December 15, 2015, the Board adopted new rules, a new form, and amendments to auditing standards (collectively, the "proposed rules") to improve transparency regarding the engagement partner and other accounting firms that participate in issuer audits. The text of the proposed rules is set out below.

RULES OF THE BOARD AND AMENDMENTS TO AUDITING STANDARDS

The Board adopts: (i) new Rule 3210, Amendments, and Rule 3211, Auditor Reporting of Certain Audit Participants; (ii) new Form AP, Auditor Reporting of Certain Audit Participants; and (iii) amendments to AS 3101 (currently AU sec. 508), Reports on Audited Financial Statements, and AS 1205 (currently AU sec. 543), Part of the Audit

Performed by Other Independent Auditors. The text of these rules, form, and amendments is set forth below.

RULES OF THE BOARD

SECTION 3. AUDITING AND RELATED PROFESSIONAL PRACTICE STANDARDS

Rule 3210. Amendments

The provisions of Rule 2205 concerning amendments shall apply to any Form AP filed pursuant to Rule 3211 as if the submission were a report on Form 3.

Rule 3211. Auditor Reporting of Certain Audit Participants

(a) For each audit report it issues for an issuer, a registered public accounting firm must file with the Board a report on Form AP in accordance with the instructions to that form.

Note 1: A Form AP filing is not required for an audit report of a registered public accounting firm that is referred to by the principal auditor in accordance with AS 1205, Part of the Audit Performed by Other Independent Auditors.

Note 2: Rule 3211 requires the filing of a report on Form AP regarding an audit report only the first time the audit report is included in a document filed with the Commission. Subsequent inclusion of precisely the same audit report in other documents filed with the Commission does not give rise to a requirement to file another Form AP. In the event of any change to the audit report, including any change in the dating of the report, Rule 3211 requires the filing of a new Form AP the first time the revised audit report is included in a document filed with the Commission.

(b) Form AP is deemed to be timely filed if—

1. The form is filed by the 35th day after the date the audit report is first included in a document filed with the Commission; provided, however, that

2. If such document is a registration statement under the Securities Act, the form is filed by the 10th day after the date the audit report is first included in a document filed with the Commission.

(c) Unless directed otherwise by the Board, a registered public accounting firm must file such report electronically with the Board through the Board's Web-based system.

(d) Form AP shall be deemed to be filed on the date that the registered public accounting firm submits a Form AP in accordance with this rule that includes the certification in Part VI of Form AP.

AMENDMENTS TO BOARD FORMS

FORM AP—AUDITOR REPORTING OF CERTAIN AUDIT PARTICIPANTS

GENERAL INSTRUCTIONS

1. <u>Submission of this Report</u>. Effective [insert effective date of Rule 3211], a registered public accounting firm must use this Form to file with the Board reports required by Rule 3211 and to file any amendments to such reports. Unless otherwise directed by the Board, the registered public accounting firm must file this Form electronically with the Board through the Board's Web-based system.

2. <u>Defined Terms</u>. The definitions in the Board's rules apply to this Form. Italicized terms in the instructions to this Form are defined in the Board's rules. In addition,

as used in the instructions to this Form, the term "the Firm" means the registered public accounting firm that is filing this Form with the Board; and the term, "other accounting firm" means: (i) a registered public accounting firm other than the Firm or (ii) any other person or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework.

3. When this Report is Considered Filed. A report on Form AP is considered filed on the date the Firm submits to the Board a Form AP in accordance with Rule 3211 that includes the certification required by Part VI of Form AP.

   Note 1: A Form AP filing is not required for an audit report of a registered public accounting firm that is referred to by the Firm in accordance with AS 1205, Part of the Audit Performed by Other Independent Auditors.

   Note 2: Rule 3211 requires the filing of a report on Form AP regarding an audit report only the first time the audit report is included in a document filed with the Commission. Subsequent inclusion of precisely the same audit report in other documents filed with the Commission does not give rise to a requirement to file another Form AP. In the event of any change to the audit report, including any change in the dating of the report, Rule 3211 requires the filing of a new Form AP the first time the revised audit report is included in a document filed with the Commission.

4. Amendments to this Report. Amendments to Form AP are required to correct information that was incorrect at the time the Form was filed or to provide information that was omitted from the Form and was required to be provided at the time the Form was filed. When filing a Form AP to amend an earlier filed

Form AP, the Firm must supply not only the corrected or supplemental information, but it must include in the amended Form AP all information and certifications that were required to be included in the original Form AP. The Firm may access the originally filed Form AP through the Board's Web-based system and make the appropriate amendments without needing to re-enter all other information.

Note: The Board will designate an amendment to a report on Form AP as a report on "Form AP/A."

5. Rules Governing this Report. In addition to these instructions, Rules 3210 and 3211 govern this Form. Read these rules and the instructions carefully before completing this Form.

6. Language. Information submitted as part of this Form must be in the English language.

7. Partner ID. For purposes of responding to Item 3.1.a.6, the Firm must assign each engagement partner that is responsible for the Firm's issuance of an issuer audit report a 10-digit Partner ID number. The Firm must assign a unique Partner ID number to each such engagement partner and must use the same Partner ID for that engagement partner in every Form AP filed by the Firm that identifies that engagement partner. The Partner ID must begin with the Firm ID—a unique five-digit identifier based on the number assigned to the Firm by the PCAOB—and be followed by a unique series of five digits assigned by the Firm. When an engagement partner is no longer associated with the Firm, his/her Partner ID must be retired and not reassigned.

If the engagement partner was previously associated with a different registered public accounting firm and had a Partner ID at that previous firm, the Firm must assign a new Partner ID in accordance with the instructions above. The new Firm must report, in Item 3.1.a.6, the new Partner ID and all Partner IDs previously associated with the engagement partner.

Note: The Firm ID can be found by viewing the firm's summary page on the PCAOB website, where it is displayed parenthetically next to the name of the firm—firm name (XXXXX). For firms that have PCAOB-assigned identifiers with fewer than 5 digits, leading zeroes should be added before the number to make 5 digits, e.g., 99 should be presented as 00099.

PART I—IDENTITY OF THE FIRM

In Part I, the Firm should provide information that is current as of the date of the certification in Part VI.

Item 1.1 Name of the Firm

a. State the legal name of the Firm.

b. If different than its legal name, state the name under which the Firm issued this audit report.

PART II—AMENDMENTS

Item 2.1 Amendments

If this is an amendment to a report previously filed with the Board:

a. Indicate, by checking the box corresponding to this item, that this is an amendment.

b. Identify the specific Part or Item number(s) in this Form (other than this Item 2.1) as to which the Firm's response has changed from that provided in the most recent Form AP or amended Form AP filed by the Firm with respect to an audit report related to the issuer named in Item 3.1.a.1.

PART III—AUDIT CLIENT AND AUDIT REPORT

Item 3.1 Audit Report

a. Provide the following information concerning the issuer for which the Firm issued the audit report—

1. Indicate, by checking the box corresponding to this item, whether the audit client is an issuer other than an employee benefit plan or investment company; an employee benefit plan; or an investment company;
2. The Central Index Key (CIK) number, if any, and Series identifier, if any;
3. The name of the issuer whose financial statements were audited;
4. The date of the audit report;
5. The end date of the most recent period's financial statements identified in the audit report;
6. The name (that is, first and last name, all middle names and suffix, if any) of the engagement partner on the most recent period's audit, his/her Partner ID, and any other Partner IDs by which he/she has been identified on a Form AP filed by a different registered public accounting firm or on a Form AP filed by the Firm at the time when it had a different Firm ID; and
7. The city and state (or, if outside the United States, city and country) of the office of the Firm issuing the audit report.

b. Indicate, by checking the box corresponding to this item, if the most recent period and one or more other periods presented in the financial statements identified in Item 3.1.a.5 were audited during a single audit engagement.

c. In the event of an affirmative response to Item 3.1.b, indicate the periods audited during the single audit engagement for which the individual named in Item 3.1.a.6 served as engagement partner (for example, as of December 31, 20XX and 20X1 and for the two years ended December 31, 20XX).

d. Indicate, by checking the box corresponding to this item, if the audit report was dual-dated pursuant to AS 3110, Dating of the Independent Auditor's Report.

e. In the event of an affirmative response to Item 3.1.d, indicate the date of the dual-dated information and if different from the engagement partner named in Item 3.1.a.6, information about the engagement partner who audited the information within the financial statements to which the dual-dated opinion applies in the same detail as required by Item 3.1.a.6.

Note: In responding to Item 3.1.e, the Firm should provide each date of any dual-dated audit report.

Item 3.2 Other Accounting Firms

Indicate, by checking the box corresponding to this item, if one or more other accounting firms participated in the Firm's audit. If this item is checked, complete Part IV. By checking this box, the Firm is stating that it is responsible for the audits or audit procedures performed by the other accounting firm(s) identified in Part IV and has supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards.

Note: For purposes of Item 3.2, an other accounting firm participated in the Firm's audit if (1) the Firm assumes responsibility for the work and report of the other accounting firm as described in paragraphs .03-.05 of AS 1205, Part of the Audit Performed by Other Independent Auditors, or (2) the other accounting firm or any of its principals or professional employees was subject to supervision under AS 1201, Supervision of the Audit Engagement.

Item 3.3 Divided Responsibility

Indicate, by checking the box corresponding to this item, if the Firm divided responsibility for the audit in accordance with AS 1205, Part of the Audit Performed by Other Independent Auditors, with one or more other public accounting firm(s). If this item is checked, complete Part V.

PART IV—RESPONSIBILITY FOR THE AUDIT IS NOT DIVIDED

In responding to Part IV, total audit hours in the most recent period's audit should be comprised of hours attributable to: (1) the financial statement audit; (2) reviews pursuant to AS 4105, Reviews of Interim Financial Information; and (3) the audit of internal control over financial reporting pursuant to AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements. Excluded from disclosure and from total audit hours in the most recent period's audit are, respectively, the identity and hours incurred by: (1) the engagement quality reviewer; (2) the person who performed the review pursuant to SEC Practice Section 1000.45 Appendix K; (3) specialists engaged, not employed, by the Firm; (4) an accounting firm performing the audit of the entities in which the issuer has an investment that is accounted for using the equity method; (5) internal auditors, other company personnel, or third parties working under the direction of management or the audit committee who provided direct assistance in the audit of internal control over financial reporting; and (6) internal auditors who provided direct assistance in the audit of the financial statements. Hours incurred in the audit by entities other than other accounting firms are included in the calculation of total audit hours and should be allocated among the Firm and the other accounting firms participating in the audit on the basis of which accounting firm commissioned and directed the applicable work.

Actual audit hours should be used if available. If actual audit hours are unavailable, the Firm may use a reasonable method to estimate the components of this calculation. The Firm should document in its files the method used to estimate hours when actual audit hours are unavailable and the computation of total audit hours on a basis consistent with AS 1215, Audit Documentation. Under AS 1215, the documentation should be in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand the computation of total audit hours and the method used to estimate hours when actual hours were unavailable.

In responding to Part IV, if the financial statements for the most recent period and one or more other periods covered by the audit report identified in Item 3.1.a.4 were audited during a single audit engagement (for example, in a reaudit of a prior period(s)), the calculation should be based on the percentage of audit hours attributed to such firms in relation to the total audit hours for the periods identified in Item 3.1.c.

Indicate, by checking the box, if the percentage of total audit hours will be presented within ranges in Part IV.

Item 4.1 Other Accounting Firm(s) Individually 5% or Greater of Total Audit Hours

a. State the legal name of other accounting firms and the extent of participation in the audit—as a single number or within the appropriate range of the percentage of hours, according to the following list—attributable to the audits or audit procedures performed by such accounting firm in relation to the total hours in the most recent period's audit.

90%-or-more of total audit hours;

80% to less than 90% of total audit hours;

70% to less than 80% of total audit hours;

60% to less than 70% of total audit hours;

50% to less than 60% of total audit hours;

40% to less than 50% of total audit hours;

30% to less than 40% of total audit hours;

20% to less than 30% of total audit hours;

10% to less than 20% of total audit hours; and

5% to less than 10% of total audit hours.

b. For each other accounting firm named, state the city and state (or, if outside the United States, city and country) of the headquarters' office and, if applicable, the other accounting firm's Firm ID.

Note 1: In responding to Items 4.1 and 4.2, the percentage of hours attributable to other accounting firms should be calculated individually for each firm. If the individual participation of one or more other accounting firm(s) is less than 5%, the Firm should complete Item 4.2.

Note 2: In responding to Item 4.1.b, the Firm ID represents a unique five-digit identifier for firms that have a publicly available PCAOB-assigned number.

Item 4.2 Other Accounting Firm(s) Individually Less Than 5% of Total Audit Hours

a. State the number of other accounting firm(s) individually representing less than 5% of total audit hours.

b. Indicate the aggregate percentage of participation of the other accounting firm(s) that individually represented less than 5% of total audit hours by filling in a single number or by selecting the appropriate range as follows:

90%-or-more of total audit hours;

80% to less than 90% of total audit hours;

70% to less than 80% of total audit hours;

60% to less than 70% of total audit hours;

50% to less than 60% of total audit hours;

40% to less than 50% of total audit hours;

30% to less than 40% of total audit hours;

20% to less than 30% of total audit hours;

10% to less than 20% of total audit hours;

5% to less than 10% of total audit hours; and

Less-than-5% of total audit hours.

PART V—RESPONSIBILITY FOR THE AUDIT IS DIVIDED

Item 5.1 Identity of the Other Public Accounting Firm(s) to which the Firm Makes Reference

a. Provide the following information concerning each other public accounting firm the Firm divided responsibility with in the audit—

1. State the legal name of the other public accounting firm and when applicable, the other public accounting firm's Firm ID.

2. State the city and state (or, if outside the United States, city and country) of the office of the other public accounting firm that issued the other audit report.

3. State the magnitude of the portion of the financial statements audited by the other public accounting firm.

Note: In responding to Item 5.1.a.3, the Firm should state the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, as it is described in the audit report in accordance with AS 1205.

PART VI—CERTIFICATION OF THE FIRM

Item 6.1 Signature of Partner or Authorized Officer

This Form must be signed on behalf of the Firm by an authorized partner or officer of the Firm by typing the name of the signatory in the electronic submission. The signer must certify that:

a. The signer is authorized to sign this Form on behalf of the Firm;

b. The signer has reviewed this Form;

c. Based on the signer's knowledge, this Form does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading; and

d. Based on the signer's knowledge, the Firm has not failed to include in this Form any information that is required by the instructions to this Form.

The signature must be accompanied by the signer's title, the capacity in which the signer signed the Form, the date of signature, and the signer's business telephone number and business e-mail address.

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AMENDMENTS TO PCAOB AUDITING STANDARDS FOR OPTIONAL DISCLOSURE OF CERTAIN AUDIT PARTICIPANTS IN THE AUDITOR'S REPORT

The amendments below are adopted to PCAOB auditing standards.

<u>AS 3101 (currently AU sec. 508), Reports on Audited Financial Statements</u>

AS 3101 (currently AU sec. 508), <u>Reports on Audited Financial Statements</u>, is amended as follows:

a. Paragraph .09A is added, as follows:

> The auditor may include in the auditor's report information regarding the engagement partner and/or other accounting firms participating in the audit that is required to be reported on PCAOB Form AP, <u>Auditor Reporting of Certain Audit Participants</u>. If the auditor decides to provide information about the engagement partner, other accounting

firms participating in the audit, or both, the auditor must disclose the following:

a. Engagement partner—the engagement partner's full name as required on Form AP; or

b. Other accounting firms participating in the audit—

   i. A statement that the auditor is responsible for the audits or audit procedures performed by the other public accounting firms and has supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards;

   ii. Other accounting firms individually contributing 5% or more of total audit hours—for each firm, (1) the firm's legal name, (2) the city and state (or, if outside the United States, city and country) of headquarters' office, and (3) percentage of total audit hours as a single number or within an appropriate range, as is required to be reported on Form AP; and

   iii. Other accounting firms individually contributing less than 5% of total audit hours—(1) the number of other accounting firms individually representing less than 5% of total audit hours and (2) the aggregate percentage of total audit hours of such firms as a single number or within an appropriate range, as is required to be reported on Form AP.

AS 1205 (currently AU sec. 543), Part of the Audit Performed by Other Independent Auditors

AS 1205 (currently AU sec. 543), Part of the Audit Performed by Other Independent Auditors, is amended as follows:

a. In paragraph .03, the following phrase is added to the end of the second sentence, ", except as provided in paragraph .04."

b. In paragraph .04, the last sentence is deleted and replaced with the following:

> If the principal auditor decides to take this position, the auditor may include information about the other auditor in the auditor's report pursuant to paragraph .09A of AS 3101, Reports on Audited Financial Statements, but otherwise should not state in its report that part of the audit was made by another auditor.

c. In paragraph .07:

- The last sentence is deleted.
- Footnote 3 is deleted.

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II. Board's Statement of the Purpose of, and Statutory Basis for, the Proposed Rules

In its filing with the Commission, the Board included statements concerning the purpose of, and basis for, the proposed rules and discussed any comments it received on the proposed rules. The text of these statements may be examined at the places specified in Item IV below. The Board has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements. In addition, the Board is requesting that the Commission approve the proposed rules, pursuant to Section 103(a)(3)(C) of the Sarbanes-Oxley Act, for application to audits of emerging growth companies ("EGCs"), as that term is defined in Section 3(a)(80) of the Securities Exchange Act of 1934 ("Exchange Act"). The Board's request is set forth in section D.

A. Board's Statement of the Purpose of, and Statutory Basis for, the Proposed Rules

(a) Purpose

Introduction

The Board has adopted new rules and related amendments to its auditing standards that will provide investors and other financial statement users with information about engagement partners and accounting firms that participate in audits of issuers. Under the final rules, firms will be required to file a new PCAOB form for each issuer audit, disclosing: the name of the engagement partner; the name, location, and extent of participation of each other accounting firm that took part in the audit whose work constituted at least 5% of total audit hours; and the number and aggregate extent of participation of all other accounting firms participating in the audit whose individual participation was less than 5% of total audit hours. The information will be filed on Form AP, Auditor Reporting of Certain Audit Participants, and will be available in a searchable database on the Board's website.

Audits serve a crucial public function in the capital markets. However, investors have had very little ability to evaluate the quality of particular audits. Generally, in the United States, investor decisions about how much credence to give to an auditor's report have been based on proxies of audit quality, such as the size and reputation of the firm that issues the auditor's report. Investors and other financial statement users know the name of the accounting firm signing the auditor's report and may have other information related to the reputation and quality of services of the firm, but they are generally unable to readily identify the engagement partner leading the audit. They are also unlikely to know the extent of the role played by other accounting firms participating in the audit.

The Board has adopted these rules and amendments after considering four rounds of public comment, as well as comments from members of the Board's Standing Advisory Group ("SAG") and Investor Advisory Group ("IAG"). The Board has received consistent comments from investors throughout this rulemaking that stress the importance and value to them of increased transparency and accountability in relation to certain participants in the audit. These commenters indicated that access to such information would be relevant to their decision making, for example, in the context of voting to ratify the company's choice of auditor.[1] The Board believes that its approach to providing information about the engagement partner and the other accounting firms that participated in the audit will achieve the objectives of enhanced transparency and accountability for the audit while appropriately addressing concerns raised by commenters.

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[1] See, e.g., Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to the Office of the Secretary, PCAOB (Aug. 15, 2014), ("[I]nformation about engagement partners' track record compiled as the result of requiring disclosure of the partner's name in the auditor's report would be relevant to our members as long-term shareowners in overseeing audit committees and determining how to cast votes on the more than two thousand proposals that are presented annually to shareowners on whether to ratify the board's choice of outside auditor.").

In the Board's own experience, gained through more than ten years of overseeing public company audits, information about the engagement partner and other accounting firms participating in the audit can be used along with other information, such as history on other issuer audits or disciplinary proceedings, in order to provide insights into audit quality. The rules the Board adopted will add more specific data points to the mix of information that can be used when evaluating audit quality.[2] Since audit quality is a component of financial reporting quality, high audit quality increases the credibility of financial reporting.

For example, the name of the engagement partner could, when combined with additional information about the experience and reputation of that partner, provide more information about audit quality than solely the name of the firm.[3] Through its oversight activities, the Board has observed that the quality of individual audit engagements varies within firms, notwithstanding firmwide or networkwide quality control systems. Although such variations may be due to a number of factors, the Board's staff uses engagement partner history as one factor in making risk-based selections of audit engagements for inspection. Some firms closely monitor engagement partner quality

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[2] The Board's project on the auditor's reporting model, Proposed Auditing Standards—The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards, PCAOB Release No. 2013-005 (Aug. 13, 2013), is also focused on providing the market with additional information about the audit. In addition, the Board has issued a concept release, Concept Release on Audit Quality Indicators, PCAOB Release No. 2015-005 (July 1, 2015), regarding the content and possible uses of "audit quality indicators," a potential portfolio of quantitative measures that may provide new insights into how to evaluate the quality of audits and how high-quality audits are achieved.

[3] Most non-US jurisdictions with highly developed capital markets require transparency regarding the engagement partner responsible for the audit.

history themselves, utilizing this information to manage risk to the firm and to comply with quality control standards.

Under the final rules, investors and other financial statement users will have access, in one location, to the names of engagement partners on all issuer audits.[4] As this information accumulates and is aggregated with other publicly available information, investors will be able to take into account not just the firm issuing the auditor's report but also the specific partner in charge of the audit and his or her history as an engagement partner on issuer audits. This will allow interested parties to compile information about the engagement partner, such as whether the partner is associated with restatements of financial statements or has been the subject of public disciplinary proceedings, as well as whether he or she has experience as an engagement partner auditing issuers of a particular size or in a particular industry. While this information may not be useful in every instance or meaningful to every investor, the Board believes that, overall, it will contribute to the mix of information available to investors.

The final rules requiring disclosures about other accounting firms that participate in issuer audits should also provide benefits to investors and other financial statement users. In many audit engagements, especially audits of public companies operating in multiple locations internationally, the firm signing the auditor's report performs only a portion of the audit. The remaining work is performed by other (often affiliated) accounting firms that are generally located in other jurisdictions. The accounting firm issuing the auditor's report assumes responsibility for the procedures performed by other

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[4] At this time, the Board is not extending the Form AP requirements to audits of brokers and dealers pursuant to Rule 17a-5 under the Exchange Act. If a broker or dealer were an issuer required to file audited financial statements under Section 13 or 15(d) of the Exchange Act, the requirements would apply.

accounting firms participating in the audit[5] or supervises the work of other accounting and nonaccounting firm participants in the audit.[6] However, under current requirements, the auditor's report generally provides no information about these arrangements, even though other accounting firms may perform a significant portion of the audit work. As a result, the auditor's report may give the impression that the work was performed solely by one firm—the firm issuing the auditor's report—and investors have no way of knowing whether the firm expressing the opinion did all of the work or only a portion of it.

Information provided on Form AP is intended to help investors understand how much of the audit was performed by the accounting firm signing the auditor's report and how much was performed by other accounting firms. Investors will also be able to research publicly available information about the firms identified in the form, such as whether a participating firm is registered with the PCAOB, whether it has been inspected and, if so, what the results were and whether it has any publicly available disciplinary history. Investors will also have a better sense of how much of the audit was performed by firms in other jurisdictions, including jurisdictions in which the PCAOB cannot

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5 See AS 1205 (currently AU sec. 543), Part of the Audit Performed by Other Independent Auditors. On March 31, 2015, the PCAOB adopted the reorganization of its auditing standards using a topical structure and a single, integrated numbering system. See Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules, PCAOB Release No. 2015-002 (Mar. 31, 2015). On September 17, 2015, the SEC approved the PCAOB's adoption of the reorganization. See Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules to Implement the Reorganization of PCAOB Auditing Standards and Related Changes to PCAOB Rules and Attestation, Quality Control, and Ethics and Independence Standards, Exchange Act Release No. 34-75935 (Sept. 17, 2015), 80 FR 57263 (Sept. 22, 2015). The reorganized amendments will be effective as of December 31, 2016, and nothing precludes auditors and others from using and referencing the reorganized standards before the effective date. See PCAOB Release No. 2015-002, at 21.

6 See AS 1201 (currently Auditing Standard No. 10), Supervision of the Audit Engagement.

currently conduct inspections. As with disclosure of the name of the engagement partner, these additional data points will add to the mix of information that investors can use.

In addition to the informational value of the disclosures required under the final rules, the Board believes the transparency created by public disclosure should promote increased accountability in the audit process. As Justice Brandeis famously observed, "Sunlight is said to be the best of disinfectants; electric light the most efficient policeman."[7] Although auditors already have incentives to maintain a good reputation, such as internal performance reviews, regulatory oversight, and litigation risk, public disclosure will create an additional reputation risk, which should provide an incremental incentive for auditors to maintain a good reputation, or at least avoid a bad one. While this additional incentive will not affect all engagement partners in the same way, in the Board's view, it should provide an overall benefit.

The Board believes additional transparency should also increase accountability at the firm level. The Board has observed that some auditors allowed other accounting firms that did not possess the requisite expertise or qualifications to play significant roles in audits. Firms similarly have not always given the critical task of engagement partner assignment the care it deserves. For example, the Board's inspections have found instances in which accounting firms lacked independence because they failed to rotate the engagement partner, as required by the Act and the rules of the Commission. The Board has also imposed sanctions on firms that staffed a public company audit with an

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[7] Louis Brandeis, Other People's Money and How the Bankers Use It 92 (1914).

engagement partner who lacked the necessary competencies.[8] Making firms publicly accountable in a way they have not been previously for their selections of engagement partners and other accounting firms participating in the audit should provide additional discipline on the process and discourage such lapses.

The requirement to provide disclosure on Form AP, rather than in the auditor's report as previously proposed, is primarily a response to concerns raised by some commenters about potential liability and practical concerns about the potential need to obtain consents for identified parties in connection with registered securities offerings. Investors commenting in the rulemaking process have generally stated a preference for disclosure in the auditor's report. Under the final rules, in addition to filing Form AP, firms will also have the ability to identify the engagement partner and/or provide disclosure about other accounting firms participating in the audit in the auditor's report. This is not required, but firms may choose to do so voluntarily. The Board believes that providing information about the engagement partner and the other accounting firms that participated in the audit on Form AP, coupled with allowing voluntary reporting in the auditor's report, will achieve the objectives of enhanced transparency and accountability for the audit while appropriately addressing concerns raised by commenters.

In response to commenter suggestions, the Board adopted a phased effective date to give firms additional time to develop systems necessary to implement the new rules. Subject to approval of the new rules and amendments by the Commission, Form AP disclosure regarding the engagement partner will be required for audit reports issued on

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[8] See, e.g., Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions, In the Matter of Deloitte & Touche, LLP, PCAOB Release No. 105-2007-005 (Dec. 10, 2007).

or after the later of three months after Commission approval of the final rules or January 31, 2017. Disclosure regarding other accounting firms will be required for audit reports issued on or after June 30, 2017.

The Board adopted two new rules (Rules 3210 and 3211) and one new form (Form AP). These are disclosure requirements and do not change the performance obligations of the auditor in conducting the audit. The Board also adopted amendments to AS 3101 (currently AU sec. 508), Reports on Audited Financial Statements, and AS 1205 (currently AU sec. 543) related to voluntary disclosure in the auditor's report.

In the Board's view, the final rules and amendments to its auditing standards, which the Board adopted pursuant to its authority under the Sarbanes-Oxley Act, will further the Board's mission of protecting the interests of investors and furthering the public interest in the preparation of informative, accurate, and independent audit reports.

(b) Statutory Basis

The statutory basis for the proposed rules is Title I of the Act.

B. Board's Statement on Burden on Competition

Not applicable.

C. Board's Statement on Comments on the Proposed Rules Received from Members, Participants or Others

The Board released the proposed rule amendment for public comment in Concept Release on Requiring the Engagement Partner to Sign the Audit Report, PCAOB Release No. 2009-005 (July 28, 2009) ("2009 Release"), Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2, PCAOB Release No. 2011-007 (October 11, 2011) ("2011 Release"), Improving the Transparency of Audits:

Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit, PCAOB Release No. 2013-009 (December 4, 2013) ("2013 Release"), and Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form, PCAOB Release No. 2015-004 (June 30, 2015) ("2015 Supplemental Request"). See Exhibit 2(a)(A). A copy of Release Nos. 2009-005, 2011-007, 2013-009, and 2015-004 and the comment letters received in response to the PCAOB's requests for comment are available on the PCAOB's website at http://www.pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx. The Board received 184 written comment letters (including one letter which was withdrawn). The Board's response to the comments it received and the changes made to the rules in response to the comments received are discussed below.

Discussion of the Final Rules

The required disclosures under the final rules principally include:

- The name of the engagement partner; and
- For other accounting firms[9] participating in the audit:

  5% or greater participation: The name, city and state (or, if outside the United States, the city and country), and the percentage of total audit hours attributable to each other accounting firm whose participation in the audit was at least 5% of total audit hours;

[9] For purposes of Form AP, "other accounting firm" means (i) a registered public accounting firm other than the firm filing Form AP or (ii) any other person or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework.

Less than 5% participation: The number of other accounting firms that participated in the audit whose individual participation was less than 5% of total audit hours, and the aggregate percentage of total audit hours of such firms.

The final rules require this information to be filed on Form AP. In addition to filing the form, the firm signing the auditor's report may voluntarily provide information about the engagement partner, other accounting firms, or both in the auditor's report.

Form AP—Auditor Reporting of Certain Audit Participants

Introduction

Under the final rules, firms will be required to provide specified disclosures regarding the engagement partner and other accounting firms participating in the audit on a new PCAOB form, Form AP. Most commenters supported Form AP as a vehicle for disclosures about the engagement partner and other participants in the audit. However, some commenters criticized the Form AP approach generally because they disputed the net value of the information to be disclosed, regardless of the means of disclosure, or believed that the information was more appropriately presented elsewhere, such as in the auditor's report, the issuer's proxy statement, or PCAOB Form 2. Investors and investor groups generally preferred auditor signature or disclosure in the auditor's report and characterized Form AP as an acceptable second-best approach. Most other commenters, on the other hand, preferred Form AP, generally on the basis that it would help mitigate legal and practical issues associated with disclosure in the auditor's report.

As noted in the 2015 Supplemental Request, Form AP serves the same purpose as disclosure in the auditor's report. Its intended audience is the same as the audience for the auditor's report—investors and other financial statement users—and its filing is tied to the issuance of an auditor's report. In that respect, it differs from the PCAOB's existing forms,[10] which are intended primarily to elicit information for the Board's use in connection with its oversight activities, with a secondary benefit of making as much reported information as possible available to the public as soon as possible after filing with the Board.[11] Form AP is primarily intended as a vehicle for public disclosure, much like the auditor's report itself.[12] While information on Form AP could also benefit the Board's oversight activities, that is ancillary to the primary goal of public disclosure.

Disclosures About the Engagement Partner

Since the inception of this rulemaking, the Board has explored a variety of means of providing public disclosure of the name of the engagement partner, including engagement partner signature on the auditor's report, identification of the engagement

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[10] Existing PCAOB reporting forms have been developed for the principal purpose of registration with the Board and reporting to the Board about a registered public accounting firm's issuer, broker, and dealer audit practice. These forms are: (1) Form 1, Application for Registration; (2) Form 1-WD, Request for Leave to Withdraw from Registration; (3) Form 2, Annual Report; (4) Form 3, Special Report; and (5) Form 4, Succeeding to Registration Status of Predecessor.

[11] Rules on Periodic Reporting by Registered Public Accounting Firms, PCAOB Release No. 2008-004 (June 10, 2008), at 28.

[12] The Board has authority under Section 103 of the Sarbanes-Oxley Act to adopt, by rule, audit standards "to be used by registered public accounting firms in the preparation and issuance of audit reports . . . as may be necessary or appropriate in the public interest or for the protection of investors." In addition, under Section 102 of the Sarbanes-Oxley Act, the Board has authority to require registered public accounting firms to submit periodic and special reports, which are publicly available unless certain conditions are met. If a firm requests confidential treatment of information under Section 102(e) of the Sarbanes-Oxley Act, the information is not publicly disclosed unless there is a final determination that it does not meet the conditions for confidentiality. Because of the intended purpose of Form AP and the Board's related authority under Section 103 of the Sarbanes-Oxley Act, confidential treatment of the information filed on Form AP will not be available.

partner in the auditor's report, and identification of the name of the engagement partner on Form 2. The 2013 Release contemplated identifying the engagement partner in the auditor's report. The 2015 Supplemental Request solicited comment on the potential use of Form AP, with optional additional disclosure in the auditor's report.

Commenters on the 2013 Release and on the 2015 Supplemental Request expressed divergent views on a requirement to disclose the name of the engagement partner. Commenters that supported the disclosure requirement argued that it would provide information that would be useful to investors and other financial statement users (for example, in connection with a vote on ratification of auditors), or could improve audit quality by increasing the sense of accountability of engagement partners. Commenters that opposed the requirement generally claimed that identification of the engagement partner would give rise to unintended negative consequences, particularly with respect to liability; would not be useful information for investors and other financial statement users; could incentivize engagement partners to act in ways that protect their reputations but potentially conflict with the audit quality goals of their audit firms or with broader indicators of audit quality; and could mislead or confuse users about the role of the engagement partner, in particular by overemphasizing the role of the engagement partner as compared to the role of the firm. Several of the commenters that previously opposed disclosure in the auditor's report were more supportive of disclosure in a PCAOB form, if the Board determined to mandate disclosure.

The Board believes that disclosure of the name of the engagement partner will, overall, be useful to investors and other financial statement users. Although the disclosure of the name of the engagement partner might provide limited information initially, it is reasonable to expect that, over time, the disclosures will allow investors and other financial statement users to consider a number of other data points about the engagement partner, such as the number and names of other issuer audit engagements in which the partner is the engagement partner and other publicly available data. Such bodies of information have developed in some other jurisdictions, such as Taiwan, where public companies are required to disclose the names of the engagement partners,[13] and some commenters believe that, in the United States, third-party vendors will supply information in addition to what is provided by Form AP.

Some commenters on the 2015 Supplemental Request suggested that disclosure regarding a number of these matters, such as industry experience, partner tenure, restatements and disciplinary actions, be added to Form AP or linked to Form AP data. One of these commenters pointed out that the academic literature supports the potential usefulness of metrics, such as the number of years the individual has served as the engagement partner or the engagement partner for prior years as signals of audit quality, and that, by requesting additional background information in the first year of implementation, the PCAOB could accelerate the usefulness of Form AP data. In striking a balance between the anticipated benefits of the rule and its anticipated costs, including the costs and timing of initial implementation, the Board has determined not to expand the disclosures required on Form AP at this time.

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[13] As described in Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, Capital Market Consequences of Audit Partner Quality, 90 The Accounting Review 2143 (2015), the Taiwan Economic Journal collects data that covers all public companies in Taiwan and includes, among other things, the names of the engagement partners, the accounting firm issuing the auditor's report, the regulatory sanction history of the partners, and the audit opinions. Professor Aobdia is a research fellow at the PCAOB. His research cited above was undertaken prior to joining the PCAOB.

Some commenters raised concerns that public identification of the engagement partner could lead to a rating, or "star," system resulting in particular individuals being in high demand, to the unfair disadvantage of other equally qualified engagement partners. These commenters also suggested that, if such a system were created, engagement partners may not be willing to accept the most challenging audit engagements. The Board is aware that, as a consequence of the required disclosures, certain individuals may develop public reputations based on their industry specializations, audit history, and track records. The Board does not believe that such information would necessarily be harmful and could, to the contrary, be useful to investors and other financial statement users. In recent years, detailed information about the backgrounds, expertise, and reputations among clients and peers has become commonly available regarding other skilled professionals and such information is widely available to consumers of those services. The role of an auditor, including an engagement partner, differs from that of other professions, but the underlying principle that consumers of professional services could make better decisions with more information still applies. Further, investors generally commented that they would benefit from information about the identity of those who perform audits.

Some commenters were concerned that identification of the engagement partner may confuse investors by putting a misleading emphasis on a single individual when an audit, particularly a large audit, is in fact a group effort. One commenter suggested that the disclosure should be expanded to include members of firm leadership to help clarify the responsibility for the audit; other commenters suggested adding context, such as disclosure of the proportion of total audit hours attributable to the engagement partner;

identification of other parties that play a role in the engagement; identification of the engagement quality reviewer; or a sentence that explains the roles of the engagement partner and the firm signing the auditor's report in the performance of the audit.

It is true that an audit is often a group effort and that a large audit of a multinational company generally involves a very large team with more than one partner involved. Nevertheless, the engagement partner, who is the "member of the engagement team with primary responsibility for the audit,"[14] plays a unique and critical role in the audit. It is not unusual in audits of large companies for audit committees to interview several candidates for their engagement partner when a new engagement partner is to be chosen because the qualifications and personal characteristics of the engagement partner are viewed by the audit committee and senior management as particularly important. Because of the engagement partner's key role in the audit, it is appropriate when shareholders are asked to ratify the company's choice of the registered firm as its auditor to be well informed about the leader of the team that conducted the most recently completed audit. Public identification of the name of the engagement partner will help serve that end. The role played in the audit by others such as the engagement quality reviewer, while important, is not comparable and, in the Board's view, does not warrant separate identification at this time.

Some commenters on the 2013 and 2011 Releases expressed concerns that public identification of engagement partners may make them susceptible to threats of violence and suggested adding an exception to the disclosure requirement analogous to that in the EU's Eighth Company Law Directive, which allows for an exception "if such disclosure

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[14] See Appendix A of AS 2101 (currently Auditing Standard No. 9), Audit Planning, and Appendix A of AS 1201 (currently Auditing Standard No. 10).

could lead to an imminent and significant threat to the personal security of any person."[15] However, other commenters on the 2011 Release indicated that auditors should not be treated differently, for security purposes, than other individuals involved in the financial reporting process who are publicly associated with a company in its SEC filings. The Board notes that a requirement to disclose the names of financial executives, board members, and audit committee members has been in place in the U.S. for quite some time, yet there is no indication that personal security risks have increased for these individuals. Therefore, the final rules do not include an exception to the required disclosure.

Many commenters have also suggested that the simple act of naming the engagement partner will increase the engagement partner's sense of accountability. Some of these commenters argued that increased accountability would lead to changes in behavior that would enhance audit quality. In their view, the availability of information about engagement partner history, and the potential that individuals may develop public reputations based on their industry specializations, audit history, and track records could be a powerful antidote to internal pressures or may foster improved compliance with existing auditing standards. Many accounting firms, associations of accountants, and others disputed this argument, claiming that engagement partners are already accountable as a result of internal performance reviews, regulatory oversight, and litigation risk. The Board believes allowing investors and other financial statement users to distinguish not just among firms, but also among partners, should enhance the incentive for engagement partners to develop a reputation for performing high-quality audits.

[15] Directive 2006/43/EC of the European Parliament and of the Council, Article 28, Audit Reporting (May 17, 2006).

Public disclosure of the engagement partner's name could also have a beneficial effect on the engagement partner assignment process at some firms. In many public companies, particularly larger ones, the choice of an engagement partner is determined by both the firm and the audit committee. As discussed above, firms would be publicly accountable for these assignments in a way that they have not been previously. Some commenters noted that audit committees are currently able to obtain non-public information about engagement partners. These commenters suggested that mandated disclosure would not be useful to audit committees, since audit committees already know the information being disclosed. However, as noted by another commenter, disclosure would lead to more information becoming publicly available about all engagement partners on audits of issuers conducted under PCAOB standards, which should provide audit committees with additional context and benchmarking information when participating in the assignment process.

Some commenters suggested that, because the financial statements and the auditor's report are retrospective, the disclosure required under the proposed amendments would not be useful for shareholders deciding whether to ratify the audit committee's choice of auditor. Under the final rules, shareholders will be able to find the identity of the engagement partner for the most recently completed audit but not for the next period. Other commenters, however, claimed that historical information would provide insight into the audit process and would enable investors to better evaluate the audit, which would assist them in making the ratification decision.

For the reasons discussed above, the Board believes that disclosure of the name of the engagement partner will benefit investors and other financial statement users by providing more specific data points in the mix of information that can be used when evaluating audit quality and hence credibility of financial reporting. At the same time, the disclosure should, at least in some circumstances, enhance the accountability of both engagement partners and accounting firms.

In commenting on the 2015 Supplemental Request, some academics noted potential uncertainty or ambiguity that could arise if engagement partners' names were not presented consistently in Form AP, if an engagement partner changed his or her name or changed firms, or if two engagement partners had the same name. Some commenters suggested that the PCAOB include a unique partner identifying number to ensure that partners could be unambiguously identified over time. Evidence available to PCAOB staff indicates that the problem of partner name confusion among the largest audit firms would be quite limited.[16] However, because it may improve the usability of the data, Form AP includes a field for such a partner identifying number, and the final rules require each registered accounting firm to assign a 10-digit partner identifying number—Partner ID—to each of its partners serving as the engagement partner on audits of issuers.[17] The number will be identified to a particular partner and will not be reassigned

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[16] In order to evaluate the potential extent of confusion about partner names, staff researched six years of partner name data for the largest four accounting firms. Three scenarios of potential name confusion were constructed and quantitatively evaluated. The first scenario was two partners in a firm sharing the exact same name. The second scenario was a lead engagement partner changing audit firms. The final scenario was a partner changing last names. The total incidence of such scenarios appeared to affect less than 0.5% of the partner population in the sample.

[17] <u>See</u> general instruction 7 and Item 3.1.a.6 of Form AP. The firm is required to assign a 10-digit Partner ID number, beginning with the Firm ID (a unique five-digit number based on the number assigned to the firm by the PCAOB) followed by a unique series of five digits assigned by the firm. The unique series element can be any series of numbers of the firm's choosing that is unique to each engagement partner associated with the firm. For example, the unique series element could be sequential

if the partner retires or otherwise ceases serving as engagement partner on issuer audits conducted by that firm. If an engagement partner changes firms, the new firm must assign a new Partner ID to the engagement partner. The new firm will be responsible for reporting on Form AP the engagement partner with his or her new Partner ID and all Partner IDs previously associated with the engagement partner. The Board believes that the ability to unambiguously identify each engagement partner with his or her issuer audit history may improve the usability of the data gathered on Form AP and the overall cost of implementation should be low.

Disclosure About Other Participants in the Audit

Introduction

In the 2013 Release, the Board proposed disclosure in the auditor's report of: (1) the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and (2) the locations and extent of participation, on an aggregate basis by country, of certain other persons not employed by the auditor that took part in the audit. Extent of participation would have been determined as a percentage of total audit hours, excluding hours attributable to the engagement quality reviewer, Appendix K[18] review and internal audit. Extent of participation would have been

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numbers, numbers based on the year the partner was admitted into the partnership, or random numbers.

[18] See SEC Practice Section ("SECPS") Section 1000.45 Appendix K, SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants. The Board adopted Appendix K as part of its interim standards. See Rule 3400T(b), Interim Quality Control Standards; SECPS Section 1000.08(n). Appendix K requires accounting firms associated with international firms to seek the adoption of policies and procedures consistent with certain objectives, including having policies and procedures for certain filings of SEC registrants which are the clients of foreign associated firms to be reviewed by persons knowledgeable in PCAOB standards.

disclosed as a number or within a range (less than 5%, 5% to less than 10%, 10% to less than 20%, and so on in 10% increments) and would have been based on estimates of audit hours. Other accounting firms whose participation was less than 5% of total audit hours were not required to be individually identified; rather, the number of such other accounting firms and their aggregate participation would have been disclosed. Similarly, for nonaccounting firm participants in the same country whose aggregate participation was less than 5%, disclosure of the number of such countries and the aggregate participation of nonaccounting firm participants in such countries would have been required.

The 2015 Supplemental Request solicited comment on limiting disclosures with respect to nonaccounting firm participants, including the possibility of eliminating such disclosures altogether or tailoring the requirements so that disclosure would only be provided with respect to nonaccounting firms that were not entities controlled by or under common control with the auditor or employees of such entities. In addition, unlike the 2013 Release (but aligned with the 2011 Release), the disclosure requirements and computation of total audit hours presented in the 2015 Supplemental Request excluded specialists engaged, not employed, by the auditor.

Some commenters generally supported the requirements in the 2013 Release and asserted that disclosure of the other accounting firms involved in the audit would provide useful information to investors. Other commenters opposed the requirement, because of potential consent requirements and liability under the Securities Act of 1933 ("Securities Act"), or based on the belief that disclosures were not useful information, could confuse financial statement users about the degree of responsibility for the audit assumed by the accounting firm signing the auditor's report, or could contribute to information overload. Others suggested that the current auditing standards (for example, AS 1205 (currently, AU sec. 543)) in this area are adequate. Many commenters on the 2015 Supplemental Request supported other accounting firm disclosures on Form AP (even some who disagreed with engagement partner disclosure requirements). Most commenters supported having no required disclosure of nonaccounting firm participants.

The Board believes that information about other accounting firms participating in the audit is of increasing importance as companies become more global.[19] Many companies with substantial operations outside the United States are audited by U.S.-based, PCAOB-registered public accounting firms.[20] The Board's inspection process has revealed that the extent of participation by firms other than the one that signs the auditor's report ranges from none to most of the audit work (or, in extreme cases, substantially all

[19] For example, in their most recent audited financial statements filed as of May 15, 2015, approximately 51% and 41% of the population of companies in the Russell 3000 Index reported segment sales and assets, respectively, in geographic areas outside the country or region of the accounting firm issuing the auditor's report. For the population of companies in the Russell 3000 Index that reported segment sales or assets in geographic areas outside the country or region of the accounting firm issuing the auditor's report, approximately 40% and 35% of those segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

[20] See Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm, PCAOB's Staff Audit Practice Alert No. 6 (July 12, 2010) (discussing the trend of smaller U.S. firms' auditing companies with operations in emerging markets and reminding auditors of their responsibilities in such audits). Staff Audit Practice Alert No. 6, at 2, noted that "in a 27-month period ending March 31, 2010, at least 40 U.S. registered public accounting firms with fewer than five partners and fewer than ten professional staff issued audit reports on financial statements filed with the SEC by companies whose operations were substantially all in the China region." See also Activity Summary and Audit Implications for Reverse Mergers Involving Companies from the China Region: January 1, 2007 through March 31, 2010, PCAOB Research Note No. 2011-P1 (Mar. 14, 2011) (discussing available information on the role of registered public accounting firms in auditing issuers in the China region).

of the work).[21] In many situations, the accounting firm signing the auditor's report uses another accounting firm in a foreign country to audit the financial statements of a subsidiary in that country. These arrangements are often used in auditing today's multinational corporations. At the same time, the quality of the audit is dependent, to some degree, on the competence and integrity of the participating accounting firms. This is especially true when the firm signing the auditor's report has reviewed only a portion of the work done by the other accounting firm, as is permitted under AS 1205 (currently AU sec. 543).[22] The Board and its staff previously conveyed their concern about some practices they have seen in these arrangements.[23] In addition to providing potentially valuable information to investors and other financial statement users about who actually performed the audit, the disclosure of other accounting firms participating in the audit could provide other potentially valuable information, such as the extent of participation in

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[21] AS 1205.02 (currently AU sec. 543.02) requires the auditor to decide whether his own participation is sufficient to enable him to serve as the principal auditor and to report as such on the financial statements. Current auditing standards state that the firm may serve as principal auditor even when "significant parts of the audit may have been performed by other auditors." AS 1205.02. The PCAOB has a project on its agenda to improve the auditing standards that govern the planning, supervision, and performance of audits involving other auditors. See Standard-Setting Agenda, Office of the Chief Auditor (Dec. 31, 2015).

[22] See AS 1205 (currently AU sec. 543) for a list of matters the auditor is required to review.

[23] See Audit Risk in Certain Emerging Markets, PCAOB's Staff Audit Practice Alert No. 8, at 19 (Oct. 3, 2011) ("Through the Board's oversight activities, the Board's staff has observed instances in certain audits of companies in emerging markets in which the auditor did not properly coordinate the audit with another auditor."); see also Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions, In the Matter of Clancy and Co., P.L.L.C. et al., PCAOB Release No. 105-2009-001 (Mar. 31, 2009) (imposing sanctions in a case in which a U.S. firm used a significant amount of audit work performed by a Hong Kong firm without adequately coordinating its work with that of the Hong Kong firm).

the audit by other accounting firms in jurisdictions in which the PCAOB cannot conduct inspections.

Some commenters expressed concern that including information in the auditor's report about other participants in the audit might confuse financial statement users as to who has overall responsibility for the audit or appear to dilute the responsibility of the firm signing the auditor's report. Other commenters, including investors and other financial statement users, expressed support for the disclosure and indicated that investors and other financial statement users are able to distinguish and evaluate many disclosures made by management. These commenters have also asserted that they would be able to consider the information appropriately. To address concerns about potential confusion regarding who has overall responsibility for the audit or potential dilution of the responsibility of the signing firm, the final rules provide that if disclosure regarding other accounting firms is voluntarily included in the auditor's report, the auditor's report must also include a statement that the firm signing the auditor's report is responsible for the audits and audit procedures performed by the other accounting firms and has supervised or performed procedures to assume responsibility for the work in accordance with PCAOB standards.

Participants for Which Disclosure is Required

Other Accounting Firms

Under the final rules, disclosure is required with respect to all other accounting firms that participated in the audit. The final rules define an "other accounting firm" as (i) a registered public accounting firm other than the firm filing Form AP, or (ii) any other person or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework.

For purposes of Form AP, an other accounting firm participated in the audit if (i) the firm filing Form AP assumed responsibility for the work and report of the other accounting firm as described in paragraphs .03–.05 of AS 1205 (currently AU sec. 543), or (ii) the other accounting firm or any of its principals or professional employees was subject to supervision under AS 1201 (currently Auditing Standard No. 10).

As noted above, the 2013 Release contemplated that disclosure would be required with respect to other "public accounting firms" that took part in the audit. Under the Board's rules, "public accounting firm" means "a proprietorship, partnership, incorporated association, corporation, limited liability company, limited liability partnership, or other legal entity that is engaged in the practice of public accounting or preparing or issuing audit reports."[24] The change in the definition is intended to facilitate compliance and avoid potential uncertainty about the entities for which disclosure must be provided on Form AP.

The amount of disclosure required varies with the level of participation in the audit. For each other accounting firm whose participation accounted for at least 5% of total audit hours, the following information must be provided: Legal name; a unique five-digit identifier ("Firm ID") for firms that have a publicly available PCAOB-assigned number;[25] headquarters office location (city and state (or, if outside the US, city and

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[24] PCAOB Rule 1001(p)(iii), Definition of Terms Employed in Rules.

[25] This number can be found by viewing the firm's summary page on the PCAOB website, where it is displayed parenthetically next to the name of the firm—firm name (XXXXX). If the number assigned to the firm by the PCAOB has fewer than five digits, leading zeroes should be added before the number to make the five digit Firm ID,

country)); and extent of participation, expressed as a percentage (either as a single number or within a range) of total audit hours.

Form AP includes a new requirement to provide the Firm ID for all currently-registered firms as well as other accounting firms that have a publicly available PCAOB-assigned number. Although commenters did not raise a concern about needing unique identifiers for firms as they did for engagement partners, the staff is aware that some accounting firms in the same country may have the same or very similar names. To alleviate possible confusion among accounting firm names and to ensure that firms that have a publicly available PCAOB-assigned number can be more easily linked to other PCAOB registration and inspection data, Form AP requires disclosure of the Firm ID.

Some commenters expressed concern that disclosure of other accounting firms participating in the audit may provide information about the issuer's operations that would not otherwise be required to be disclosed (for example, countries in which the issuer operates). Given that the reporting provides information about where the audit was conducted and not necessarily where the issuer's business operations are located and that the names and locations of other accounting firms are only identified if their work constitutes at least 5% of total audit hours, the Board has not revised the proposed requirements to address this concern.

For other accounting firms that participated in the audit but whose individual participation accounted for less than 5% of total audit hours, the following aggregated information is required: the number of such other accounting firms; and the aggregate

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for example, 99 should be presented as 00099. For example, all currently-registered firms have a number assigned by the PCAOB.

extent of participation of such other accounting firms, expressed as a percentage of total audit hours.

Similar to comments received on the 2011 Release, a few commenters on the 2013 Release suggested that the Board should consider requiring disclosure regarding the nature of the work of or areas audited by other accounting firms. Further, some commenters suggested that the Board require the addition of clarifying language regarding the structure of the firm, the firm's system of quality controls, and the work performed by the firm signing the auditor's report over the work of other accounting firms participating in the audit.

After considering comments on the 2011 and 2013 Releases, no requirement was added for additional clarifying language because the Board does not believe that requiring the disclosure of this more detailed information is necessary to meet the Board's overall objective of this rulemaking. Moreover, the final rules require the firm preparing Form AP to acknowledge its responsibility for the audits or audit procedures performed by other accounting firms that participated in the audit.

Referred-to Auditors

In situations in which the auditor makes reference to another accounting firm in the auditor's report,[26] the 2015 Supplemental Request suggested that the auditor would also disclose the name of the other public accounting firm ("referred-to auditor"), the city and state (or, if outside the United States, city and country) of the office of the other public accounting firm that issued the other audit report, and the magnitude of the portion of the financial statements audited by the referred-to auditor on Form AP. The Board

[26] See AS 1205.03, .06–.09 (currently AU sec. 543.03, .06–.09).

adopted these requirements substantially as described in the 2015 Supplemental Request.[27] The requirement to file Form AP does not apply to referred-to auditors, since the referred-to auditor may not be required to register with the PCAOB[28] and would not generally be conducting the audit of an issuer, but rather a subsidiary or business unit of an issuer.

Unlike the disclosures for other accounting firm participants, which are based on the percentage of total audit hours, Form AP disclosures for referred-to auditors effectively incorporate the existing requirements for disclosure of the magnitude of the portion of the financial statements audited by the referred-to auditor.[29] In addition, Form AP requires the name, the city and state (or, if outside the United States, city and country) of headquarters' office location, and Firm ID, if any, of the referred-to auditor.

Nonaccounting Firm Participants

Under the 2013 Release, disclosure would have been required with respect to all

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[27] Additionally, the amendments to AS 1205 (currently AU sec. 543) remove, as unnecessary, the requirement to obtain express permission of the other accounting firm when deciding to disclose the firm's name in the auditor's report because, as discussed below, the SEC rules already include a requirement that the auditor's report of the referred-to auditor be filed with the SEC.

[28] Under PCAOB Rule 2100, Registration Requirements for Public Accounting Firms, each public accounting firm that "plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer, broker, or dealer must be registered with the Board."

[29] See AS 1205.07 (currently AU sec. 543.07). Existing PCAOB standards require that the auditor disclose the magnitude of the portion of the financial statements audited by the referred-to accounting firm by stating the dollar amount or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements audited by the referred-to accounting firm.

"persons not employed by the auditor"[30] that the auditor was required to supervise pursuant to AS 1201 (currently Auditing Standard No. 10). Such nonaccounting firm participants would not have been identified by name. Rather, these participants would have been identified in the auditor's report as "persons in [country] not employed by our firm." These disclosures would have permitted investors to determine how much of the audit was performed by nonaccounting firm participants in a particular jurisdiction but not the nature of the work performed by those nonaccounting firm participants or whether they were, for example, offshore service centers, consultants, or another type of entity.

Commenters' reactions to the reproposed disclosure requirements were mixed. Some commenters argued for uniform treatment of accounting firm participants and nonaccounting firm participants, either to make disclosure easier to understand or to avoid the creation of incentives to engage nonaccounting firm participants rather than other accounting firms. Some of these commenters suggested that the nature of services performed by persons not employed by the auditor should also be disclosed. Other commenters questioned the value of the disclosures or suggested that the disclosures could be confusing or subject to misinterpretation. Some commenters were particularly critical of requiring disclosures regarding "offshored" work[31] and work performed by

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[30] PCAOB Release No. 2011-007, at 18.

[31] The 2011 Release noted that some accounting firms had begun a practice, known as offshoring, whereby certain portions of the audit are performed by offices in a country different than the country where the firm is headquartered. The Board understands that offshored work may be performed by another office of or by entities that are distinct from, but that may be affiliated with, the registered firm that signs the auditor's report. The Board notes that the practice of sending some audit work to offshore service centers, typically in countries where labor is inexpensive, has been increasing in recent years.

leased personnel (often in firms that have an alternative practice structure[32]). These commenters asserted that work performed by nonaccounting firm participants under the direct supervision and review of the firm signing the auditor's report should not be required to be separately identified, regardless of who performed the work and where the work was performed. One commenter further asserted that disclosure should not be required regarding subsidiaries of, or other entities controlled by, the registered firm issuing the auditor's report or entities that are subject to common control (for example, sister entities that perform tax, valuation, or other assistance to the registered firm), arguing that the manner in which a registered firm is structured should not trigger a disclosure requirement.

The 2015 Supplemental Request solicited comment on eliminating disclosures regarding nonaccounting firm participants or tailoring them to eliminate disclosure for entities that are controlled by or under common control with the auditor, and the employees of such entities. While some commenters supported the disclosure requirements, most argued that disclosure would not be useful and may be confusing or inconsistent, given the differences in legal structures and practice arrangements across global networks.

After considering the comments and the intention of the disclosure, the requirement to disclose the location and extent of participation of nonaccounting firm

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[32] The Board's standards describe alternative practice structures as "nontraditional structures" whereby a substantial (the nonattest) portion of an accounting firm's practice is conducted under public or private ownership, and the attest portion of the practice is conducted through the accounting firm. ET section 101.16, 101-14—The effect of alternative practice structures on the applicability of independence rules.

participants has been eliminated from the final rule.[33] The Board recognizes that, while nonaccounting firms may participate in the audit, the Board's intent is to provide information about the participation of accounting firms. Accounting firms are responsible for supervising the work of nonaccounting firm participants. In addition, the Board's website includes names of registered accounting firms and inspection reports, as well as disciplinary actions with respect to registered public accounting firms. Information about nonaccounting firm audit participants may not be as meaningful to users since similar information is not available for these participants. The Board can monitor trends in the use of nonaccounting firms, which could have an effect on audit quality, and analyze whether such trends are related to the requirements of Form AP.

Nonaccounting firm participants participate in audits at the request of and in support of the audit work of accounting firms participating in the audit. For that reason, unless expressly excluded from the computation of total audit hours, hours incurred by nonaccounting firm participants in the audit are included in the calculation of total audit hours and should be allocated among the other accounting firms that participated in the audit on the basis of which accounting firm commissioned and directed the applicable work of the nonaccounting firm.

Exclusions from Disclosure and Computation of Total Audit Hours

The 2015 Supplemental Request indicated that the following persons would be excluded from the disclosures and from the computation of total audit hours: the

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[33] Unless the context dictates otherwise, "nonaccounting firm participant" as used in this release means any person or entity other than the principal auditor or any other accounting firm that participates in an audit.

engagement quality reviewer;[34] persons performing a review pursuant to Appendix K; specialists engaged, not employed, by the auditor;[35] internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting;[36] or internal auditors who provided direct assistance in the audit of the financial statements.[37] While some commenters on the 2015 Supplemental Request suggested that excluding the engagement quality reviewer and Appendix K review from calculation of audit hours would add administrative effort, commenters at earlier stages of the rulemaking were supportive of these exclusions. The Board continues to believe that the exclusion of the engagement quality reviewer is appropriate because he or she is not under the supervision of the engagement partner.[38] Similarly, the Appendix K review is

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[34] See AS 1220 (currently Auditing Standard No. 7), Engagement Quality Review.

[35] AS 1210 (currently AU sec. 336), Using the Work of a Specialist, describes a specialist as "a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing." Examples of specialists include, but are not limited to, actuaries, appraisers, engineers, environmental consultants, and geologists. Income taxes and information technology are specialized areas of accounting and auditing and, therefore, persons or firms possessing such skills are not considered specialists. AS 1210.01.

[36] See paragraph 17 of AS 2201 (currently Auditing Standard No. 5), An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements.

[37] See paragraph .27 of AS 2605, Consideration of the Internal Audit Function (currently AU sec. 322, The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements).

[38] Nonetheless, the engagement quality reviewer has an important role in the audit. The engagement quality reviewer performs an evaluation of the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a

excluded because the engagement partner does not supervise or assume responsibility for that work.

The hours incurred by persons employed or engaged by the company who provided direct assistance to the auditor are excluded because determining the extent of their participation in the audit may be impractical. Such persons also may perform other tasks for the company not related to providing direct assistance to the auditor or may not track time spent on providing the direct assistance.

Under the 2013 Release, the hours of persons with specialized skill or knowledge ("specialists") engaged by the auditor were included in the calculation of audit hours. This was a change from the 2011 Release, under which engaged specialists were excluded from total audit hours. One commenter on the 2013 Release suggested that including specialists in the calculation of audit hours and disclosure of persons not employed by the auditor may put firms that engage specialists at a competitive disadvantage compared to firms that employ specialists. Some commenters also expressed concerns that it may be challenging to obtain hours incurred by the specialists, especially in cases where the engagement is on a fixed-fee basis. After considering comments, the Board determined to exclude specialists engaged, not employed, by the auditor from disclosure and the computation of total audit hours.

Some commenters requested clarification regarding the treatment of audit hours related to investments accounted for using the equity method of accounting.[39] The final

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report is to be issued, in order to determine whether to provide concurring approval of issuance. See AS 1220 (currently Auditing Standard No. 7).

[39] See Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 323, Investments—Equity Method and Joint Ventures.

rules have been revised to clarify that hours incurred in the audit of entities in which the issuer has such an investment are not part of total audit hours.

Extent of Participation in the Audit—Percentage of Total Audit Hours

Audit Hours as a Metric for Participation in the Audit

Under the 2013 Release, the extent of participation in the audit would have been determined using the percentage of total audit hours as the metric.

Most commenters agreed with measurement based on the percentage of audit hours. Some commenters suggested using other metrics, including audit fees, the percentage of assets or revenue that the auditor and other participants were responsible for auditing, and the magnitude of the company's segment or subsidiary audited by the other participants.

After consideration of the comments received, the Board believes that percentage of total hours in the most recent period's audit is an appropriate and practical metric for the extent of other accounting firms' participation in the audit, for the purpose of disclosure on Form AP. Audit fees may not fairly represent the extent of other accounting firms' participation in the audit. Audit fees in the proxy disclosure may include fees for other services (for example, other regulatory and statutory filings) and may exclude fees paid directly to other accounting firms rather than to the auditor. Further, because labor rates vary widely around the world, audit fees would result in an inconsistent metric compared to audit hours. The use of revenue or assets tested may not be suitable in all circumstances, particularly when other accounting firms and the auditor perform audit procedures on the same location, business unit, or financial statement line item.

The firm should document in its files the computation of total audit hours on a basis consistent with AS 1215 (currently Auditing Standard No. 3), Audit Documentation.[40]

Elements of Total Audit Hours

In general, total audit hours will be comprised of the hours of the principal auditor, nonaccounting firm participants that assist the principal auditor or other accounting firms, and other accounting firms participating in the audit. Total audit hours exclude hours incurred by the engagement quality reviewer, Appendix K reviewer, specialists engaged by the auditor, internal audit, among others.

Disclosure Threshold

The 2013 Release set 5% of total audit hours as the threshold for identification of other participants in the audit. Many commenters supported the 5% threshold. Other commenters suggested various other thresholds, such as 3%, 10%,[41] or the PCAOB's substantial role threshold of 20%.[42]

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[40] Under AS 1215 (currently Auditing Standard No. 3), the audit documentation should be in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand the computation of total audit hours and the method used to estimate hours when actual hours were unavailable.

[41] On the 2011 Release, commenters suggested 10% to be consistent with certain requirements in accounting standards, such as the 10% of revenue threshold for disclosing sales to a single customer under FASB pronouncements. See FASB ASC, Topic 280, Segment Reporting, subparagraph 10-50-42.

[42] According to paragraph (p)(ii), "Play a Substantial Role in the Preparation or Furnishing of an Audit Report," of PCAOB Rule 1001, "[t]he phrase 'play a substantial role in the preparation or furnishing of an audit report' means—(1) to perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report, or (2) to perform the majority of the audit procedures with respect to a subsidiary or component of any issuer, broker, or dealer the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer, broker, or dealer necessary for the principal auditor to issue an audit report [on the issuer]." Under Rule

The Board's intention is to provide meaningful information to investors and other financial statement users about participants in the audit, without imposing an undue compliance burden on auditors. Based on PCAOB staff analysis of available data about the participation of other accounting firms in the audit, the Board believes using a 5% threshold would, in most cases, result in disclosing the names of other accounting firms that collectively make up most of the audit effort (measured by hours) beyond that of the firm signing the auditor's report, and would result in identification of one or two other participant(s) on average.[43] The final rule therefore retains the threshold at 5% of total audit hours. The final rule also requires firms to disclose the total number of other accounting firms that were individually less than 5% and their total extent of participation to provide investors and others with a complete picture of the effort by participating firms.

Presentation as a Single Number or Within a Range

The 2013 Release would have required firms to disclose the percentage of total audit hours of other participants either as a single number or within a series of ranges. Commenters supported the ability to present the disclosure of other participants in ranges or as a single number. This requirement was adopted in Form AP as reproposed to

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2100, each public accounting firm that "plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer, broker, or dealer must be registered with the Board."

[43] PCAOB staff analyzed information provided by auditors of more than 100 larger issuers with respect to audit engagements conducted in 2013 and 2014. The selected information included the names of other accounting firms that participated in the audit and their individual extent of participation as a percentage of the total audit hours, without using a threshold. The Board's staff used this information to determine the approximate number of other accounting firm participants in larger audit engagements that would be required to be disclosed individually using 3%, 5%, and 10% thresholds.

provide firms flexibility in completing the disclosures while providing investors and other financial statement users meaningful information about the relative extent of participation of other accounting firms and to allow firms flexibility to choose the method of presentation, i.e., as a single number or within a range, that best suits their circumstances, for all other accounting firms required to be identified.

Use of Estimates

The 2013 Release stated that auditors would be able to use estimates of audit hours when actual hours were not available. Many commenters on the 2015 Supplemental Request requested clarification that estimation of audit hours would be permitted. To respond to commenters' concerns, the instructions to Form AP provide that firms may use a reasonable method to estimate audit hours when actual hours have not been reported or are otherwise unavailable. The firm should document in its files the method used to estimate hours when actual audit hours are unavailable on a basis consistent with AS 1215 (currently Auditing Standard No. 3).

Liability Considerations

Throughout the Board's rulemaking process, commenters have expressed concern about the impact that public identification of key audit participants, particularly in the auditor's report, could have on the potential liability or litigation risks of those participants under the federal securities laws. The Board takes these concerns seriously and has sought comment throughout this rulemaking on various means of disclosure—from engagement partner signature on the auditor's report, to disclosure in the auditor's report, to disclosure on Form AP—in part to respond to them. The Board believes the final rule accomplishes its disclosure goals while appropriately addressing these concerns by commenters.

As noted in the 2015 Supplemental Request, some commenters on the 2013 Release suggested that identifying the engagement partner and the other participants in the audit in the auditor's report could create both legal and practical issues under the federal securities laws by increasing the named parties' potential liability and could require their consent if the auditors' reports naming them were included in, or incorporated by reference into, registration statements under the Securities Act.[44] In addition, some commenters expressed concerns about the possible effects of the engagement partner's name appearing in the auditor's report on liability and litigation risk under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. In their view, identification in the auditor's report could make it more likely that identified persons would be named in a lawsuit or could affect their liability position. Many commenters on the 2013 Release urged the Board to proceed with the new disclosure requirements, if it determined to do so, by mandating disclosure on an amended PCAOB Form 2, firm's annual report, or on a newly created PCAOB form as a means of responding to such concerns.

Other commenters stated that, in view of the PCAOB's investor protection mission, the 2013 Release gave too much weight to commenters' concerns about liability.

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[44] Section 11 of the Securities Act imposes liability on certain participants in a securities offering, including every accountant who, with his or her consent, has been named as having prepared or certified any part of the registration statement or any report used in connection with the registration statement. Section 7 of the Securities Act requires that the consent of every accountant so named in a registration statement must be filed with the registration statement.

These commenters asserted that naming the engagement partner, in itself, would not affect the basis on which liability could be founded.

The 2015 Supplemental Request solicited comment on whether disclosure on Form AP would mitigate commenters' concerns about liability-related consequences under federal or state law. While some commenters asserted that requiring disclosure on Form AP would not reduce litigation risk, others argued that there was no risk that Form AP disclosure would give rise to additional liability. Most accounting firms that commented on the issue agreed that Form AP would address some or all of their liability concerns. Several commenters asserted that the use of Form AP would eliminate the need to obtain consents under Section 7 of the Securities Act and mitigate or eliminate concerns about potential liability under Section 11 of the Securities Act. Commenter views on the impact of Form AP on potential liability under Exchange Act Section 10(b) and Rule 10b-5 were less uniform, with some saying that disclosures on Form AP would not have an impact on potential liability under Section 10(b) and Rule 10b-5, some suggesting the disclosures on Form AP would increase potential liability, and others saying that the impact would be uncertain because of continued development of the law in the area.

The Board believes that disclosure on Form AP appropriately addresses concerns raised by commenters about liability. As commenters suggested, disclosure on Form AP should not raise potential liability concerns under Section 11 of the Securities Act or trigger the consent requirement of Section 7 of that Act because the engagement partner and other accounting firms would not be named in a registration statement or in any document incorporated by reference into one.[45] While the Board recognizes that commenters expressed mixed views on the potential for liability under Exchange Act Section 10(b) and Rule 10b-5 and the ultimate resolution of Section 10(b) liability is outside of its control, the Board nevertheless does not believe any such risks warrant not proceeding with the Form AP approach.

Finally, one commenter asserted that the Board should not pursue disclosure requirements for the engagement partner and other participants in the audit unless it can be done in a "liability neutral" way. The Board's purpose in this project is not to expose auditors to additional liability, and, consistent with that, it has endeavored to reduce any such liability consequences. The Board does not agree, however, that it should not seek to achieve the anticipated benefits of a new rule—here, increased transparency and accountability for key participants in the audit—unless it can somehow be certain that its actions will not affect liability in any way. On the whole, the Board believes it has appropriately addressed the concerns regarding liability consequences of its proposal in a manner compatible with the objectives of this rulemaking, and in view of the rulemaking's anticipated benefits.

Voluntary Disclosure in the Auditor's Report

The 2015 Supplemental Request solicited comment on whether, in addition to filing Form AP, auditors could voluntarily provide the same information in the auditor's report. Comments on this issue were mixed. Several commenters noted that they preferred disclosure of this information in the auditor's report, although they were willing

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[45] While the requirement to file Form AP is triggered by the issuance of an auditor's report, the form would not automatically be incorporated by reference into or otherwise made part of the auditor's report.

to accept Form AP as a compromise. Another commenter stated that optionality about whether to provide disclosure in the auditor's report could also provide a signal for differentiation.

Other commenters, including almost all the accounting firms that commented, suggested that the Board should prohibit or not encourage voluntary disclosure in the auditor's report. They stated that voluntary disclosure in the auditor's report would give rise to the same legal and practical challenges as the previously proposed required auditor's report disclosure. Some of these commenters suggested that if the auditor chose to add disclosures in the auditor's report then related costs would also increase. Some other commenters were concerned that information in some, but not all, auditors' reports may confuse financial statement users about where to obtain the information.

The amendments will permit voluntary disclosure in the auditor's report. AS 3101 (currently AU sec. 508) is amended to permit voluntary disclosure in the auditor's report of the engagement partner and other accounting firms. AS 1205 (currently AU sec. 543) is amended to permit firms to disclose in certain circumstances that other accounting firms participated in the audit, which had been previously prohibited. Under these amendments, auditors can provide information in the auditor's report about the engagement partner, other accounting firms, or both, choosing if any information is disclosed in the auditor's report. However, Form AP will provide investors and financial statement users with all of the required disclosures.

If disclosure is made in the auditor's report about other accounting firms, the disclosure must include information about all of the other accounting firms required on Form AP, so that auditors cannot choose to include some other accounting firms and exclude others. The auditor's report must also include a statement confirming the principal auditor's responsibility for the work of other auditors and that it has supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards, to avoid potential confusion about the respective responsibilities of the principal auditor and the other accounting firms. When making these disclosures in the auditor's report, the language should be consistent with PCAOB standards. In particular, any additional language that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's responsibility for the audit or the audit opinion on the financial statements is not appropriate and may not be used.

The Board also adopted amendments to AS 1205 (currently AU sec. 543) to remove, as unnecessary, the requirement to obtain express permission of the other accounting firm when deciding to disclose the firm's name in the auditor's report when responsibility for the audit is divided with another firm.[46] Because the Commission rules already include a requirement that the auditor's report of the referred-to firm should be filed with the Commission, the name of the firm is already made public.[47]

Allowing voluntary disclosure in the auditor's report responds to some investors' preference regarding location and timing for disclosures. Some auditors may choose to make the disclosures in the auditor's report, and this might provide auditors a way to differentiate themselves. Auditors are not required to include anything in the auditor's report and would presumably do so only if they choose, taking into account, for example, any costs associated with disclosure in the auditor's report, such as obtaining consents

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[46] See AU sec. 1205.03, .06–.09 (currently AU sec. 543.03, .06–.09).

[47] See Rule 2-05 of Regulation S-X, 17 CFR 210.2-05.

pursuant to the Securities Act, if required, and the resulting potential for liability. Inconsistency across auditor's reports should not be a source of concern because complete data will be available on the PCAOB's website as a result of mandatory disclosures on Form AP for all issuer audits.

Filing Requirements

Filing Deadline

The 2015 Supplemental Request contemplated a filing deadline for Form AP of 30 days after the date the auditor's report is first included in a document filed with the SEC, with a shorter deadline of 10 days for initial public offerings ("IPOs"). This period was intended to balance the time needed to compile the required information, particularly for firms that submit multiple forms at the same time, with investor preference that the information be made available promptly.

Comments on the filing deadline were mixed. Some commenters preferred a shorter filing deadline, suggesting that the form should be filed concurrently with the issuance of the auditor's report or within 10 days of initial SEC filing, similar to the deadline for IPOs. In their view a shorter deadline would make it more likely that the information would be available for investors to consider in connection with their voting and investment decisions.

Other commenters suggested a longer filing deadline, which would provide firms with additional time to gather the information. Some of these commenters also indicated that with a longer deadline the information regarding the extent of participation of other accounting firms would be more accurate, requiring less estimation. These commenters suggested several alternative deadlines, including: 45 days after the report issuance, to coincide with the documentation completion date;[48] 60 days after report issuance, which would include the 45-day documentation completion date plus extra time to gather the information; monthly filings, due, for example, at the end of the month subsequent to inclusion in an SEC filing; and quarterly or annual filings.

There were very few comments on the IPO deadline. Of those that commented, most considered the 10-day filing deadline to be appropriate, while some other commenters suggested the deadline be extended, for example to 14 days.

After considering comments, the Board believes the information on Form AP should be made available so that it is useful to investors, while also affording firms sufficient time to compile the necessary information. For audits of non-IPOs, a key consideration is making the identity of the engagement partner publicly available before the shareholder vote to ratify the appointment of the auditor. For audits of IPOs, a key consideration regarding timing is ensuring that the information is available before any IPO roadshow, if applicable.

Taking into account investors' preference for timely access to the information together with commenter suggestions to provide firms with sufficient time to file Form AP, the Board has modified the deadline for filing Form AP to be 35 days after the date the auditor's report is first included in a document filed with the Commission. Based on PCAOB staff's analysis of available data regarding the timing of annual shareholders' meetings, the Board believes that this filing deadline would likely allow information to be provided to investors prior to the annual shareholders' meeting in most cases, thus

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[48] AS 1215 (currently Auditing Standard No. 3) requires that a complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date.

making the information available in time to inform voting decisions.[49] Filing deadlines of 45 days or greater may not achieve the intended benefits of providing investors with timely information. Firms have the ability to file Form APs in batches, so that firms that prefer to file periodically (for example, every month or twice a month) will be able to do so.

The deadline for filing Form AP in an IPO situation is adopted as contemplated in the 2015 Supplemental Request, as 10 days after the auditor's report is first included in a document filed with the Commission. This deadline is intended to facilitate making the information available prior to the IPO roadshow, if applicable. The text of the rule has been simplified and clarified.

Other Filing Considerations

Many firms commenting on the 2015 Supplemental Request requested additional clarification or guidance about how Form AP requirements would apply in particular circumstances, such as filing requirements for reissued auditor's reports and reporting on mutual fund families, the allocation of audit hours between audits of consolidated financial statements and statutory audits of issuer subsidiaries, and batch filing of Form APs. Some commenters recommended Form AP include other information, such as notification of a change in the engagement partner.

Form AP provides information only about completed audits, so there is no requirement to file in connection with interim reviews (although the hours incurred for

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[49] While there is no requirement under federal securities laws for an issuer to have an annual meeting of shareholders and therefore no uniform deadline for such a meeting, PCAOB staff review indicates that approximately 98% of annual meetings are held 35 days or later after the date of the auditor's report.

interim reviews are included in total audit hours).[50] Form AP is required to be amended only when there was an error or omission in the original submission. Changes from one year to the next (for example, a change in engagement partner from the one assigned in the prior year) do not necessitate an amendment and are reflected on a Form AP that will be filed when the next auditor's report is issued.

If the auditor's report is reissued and dual-dated, a new Form AP is required even when no information on the form, other than the date of the report, changes.[51] If the auditor's report date in Form AP matches the date on the auditor's report, users will be able to match the auditor's report with the related Form AP. To clarify the filing requirements for reissued reports, a note has been added to Rule 3211. The note provides that the filing of a report on Form AP regarding an audit report is required only the first time the audit report is included in a document filed with the Commission. Subsequent inclusion of precisely the same audit report in other documents filed with the Commission does not give rise to a requirement to file another Form AP. In the event of any change to the audit report, including any change in the dating of the report, Rule 3211 requires the filing of a new Form AP the first time the revised audit report is included in a document filed with the Commission.

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[50] In addition, Form AP would not be required to be filed in connection with attestation engagements, for example, compliance with servicing criteria pursuant to SEC Rule 13a-18—Regulation AB.

[51] For example, if a previously issued audit report is reissued and dual-dated to refer to the addition of a subsequent events note in the financial statements, a new Form AP filing would be required. When completing the new form, the firm should consider if any other information should be changed, including information regarding the participation of other accounting firms.

For audits of mutual funds, Form AP permits one form to be filed in cases where multiple audit opinions are included in the same auditor's report—such as in the case for mutual fund families. If multiple audit opinions included on the same auditor's report involved different engagement partners, a Form AP would be filed for each engagement partner, covering the audit opinions for the funds for which he or she served as engagement partner.

When actual hours are not available, auditors may estimate audit hours for purposes of calculating the extent of participation of other accounting firms. This situation may arise, for example, in the context of statutory audits. Accounting firms that participate in audits of multinational issuers often perform local statutory audits of subsidiaries in addition to their participation in the issuer's audit. The materiality threshold and legal requirements for the statutory audit may necessitate a different level of work than would have been required for the issuer's audit. In these cases, it may be difficult for the auditor to determine how much work performed at the subsidiary relates solely to the participation in the issuer's audit. The auditor may use a reasonable method to estimate the components of this calculation, such as 100% of actual hours incurred by other accounting firms during the issuer's audit or estimating the hours incurred by the other accounting firm participating to perform work necessary for the issuer's audit.

To ease compliance, firms must, unless otherwise directed by the Board, file Form AP through the PCAOB's existing web-based Registration, Annual, and Special Reporting system ("RASR") using the username and password they were issued in connection with the registration process.[52] The system requirements for filing Form AP are similar to the system requirements for filing annual and special reports with the PCAOB.

Some accounting firms commented that they would like the ability to file Form APs in batches to reduce their administrative burden. Some of these firms also stated that they would like the ability to file information about more than one audit report on a single Form AP. As described in the 2015 Supplemental Request, the Board has developed a template, also known as a schema, that will allow firms to submit multiple forms simultaneously using an extensible markup language ("XML"). Firms will be able to submit multiple forms simultaneously in a batch when utilizing the schema provided by the Board. Unlike other PCAOB forms, the schema for Form AP will enable firms to complete the entire form using XML rather than only portions of it. After considering commenters' concerns and the technological constraints of RASR, no changes were made regarding to the ability to file information about more than one audit report on a single Form AP.

Form APs filed with the Board will be available on the Board's website. The Board's website will allow users to search Form APs by engagement partner, to find the audits of issuers that he or she led, and by issuer, to find the engagement partner and other accounting firms that worked on its audit. Over time, the PCAOB anticipates enhancing the search functionality and plans to allow users to download search results.

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[52] Form AP is not required to be filed for audit reports issued in connection with non-issuer audits, even when those audits are conducted in accordance with PCAOB standards.

The information filed on Form AP is anticipated to be available on the Board's website indefinitely.

A commenter noted that there would be a potential redundancy between Form AP and the list of audit clients and audit reports required on Form 2, and suggested that the Board consider eliminating the Form 2 requirement. After considering the commenter's concern and evaluating the potential redundancies, the Board has determined not to amend Form 2 at this time. While some information on Form 2 does overlap with Form AP, more information is collected on Form 2 than would be filed on Form AP; for example, Form 2 also requires the dates of any consents to an issuer's use of an auditor's report previously issued.

One commenter suggested that Form AP allow a firm to assert that it cannot provide information called for by Form AP without violating non-U.S. laws, which would make Form AP consistent with other forms filed with the Board. The Board is committed to cooperation and reasonable accommodation in its oversight of registered non-U.S. firms, and has provided non-U.S. firms the opportunity to at least preliminarily withhold some information from required PCAOB forms on the basis of an asserted conflict with non-U.S. laws. Generally, the Board has not provided for firms to assert such a conflict with respect to all information required by PCAOB forms. In considering whether to allow the opportunity to assert conflicts, the Board has considered both whether it is realistically foreseeable that any law would prohibit providing the information and, even if it were realistically foreseeable, whether allowing a firm preliminarily to withhold the information is consistent with the Board's broader responsibilities and the particular regulatory objective.[53] In addition, even where the Board has allowed registered firms to assert legal conflicts in connection with Forms 2, 3, and 4, that accommodation does not entail a right for a firm to continue to withhold the information if it is "sufficiently important."[54] In this case, nothing has been brought to the Board's attention indicating a realistic possibility that any law would prohibit a firm from providing the information, and the information is categorically of sufficient importance that the Board sees no reason to allow a firm to withhold it on the basis of an asserted conflict.

The 2015 Supplemental Request proposed to apply PCAOB Rule 2204, Signatures, to Form AP. Application of the rule would have required firms to electronically sign and certify and retain manually signed copies of Form APs filed with the Board. Some commenters identified the manual signature requirement as an administrative burden that would be time consuming and costly. After considering these views, the Board determined to simplify the requirements for Form AP. Firms will be required to have each Form AP signed on behalf of the Firm by typing the name of the signatory in the electronic submission, but there is no requirement for manual signature or retention of manually signed or record copies.

Audit of Brokers and Dealers under Exchange Act Rule 17a-5

Pursuant to Exchange Act Rule 17a-5, brokers and dealers are generally required to file annual reports with the Commission and other regulators.[55] The annual report

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53 See, e.g., Rules on Periodic Reporting by Registered Public Accounting Firms, PCAOB Release No. 2008-004 (June 10, 2008), at 36–38.

54 See id. at 37–38 n.38.

55 See Exchange Act Rule 17a-5, 17 CFR 240.17a-5.

includes a financial report, either a compliance report or exemption report, and reports by the auditor covering the financial report and the compliance report or exemption report. The annual report is public, except that, if the statement of financial condition in the financial report is bound separately from the balance of the annual report, the balance of the annual report is deemed confidential and nonpublic.[56] Therefore, in situations in which the broker or dealer binds the statement of financial condition separately from the balance of the annual report, the auditor generally would issue two separate auditor's reports that would have different content: (1) an auditor's report on the statement of financial condition that would be available to the public and (2) an auditor's report on the complete annual report that, except as provided in paragraph (c)(2)(iv) of Exchange Act Rule 17a-5, would be confidential and not available to the public.[57]

As discussed in the 2013 Release, ownership of brokers and dealers is primarily private, with individual owners generally being part of the management team. The 2015 Supplemental Request sought comment about whether Form AP posed specific issues with respect to brokers and dealers. Some commenters asserted that the disclosure requirements should apply to all audits conducted under PCAOB standards. However, others asserted that the value of the disclosures for brokers and dealers would be significantly limited because of the closely held nature of brokers and dealers. These commenters suggested that the engagement partner and other participants in the audit would be known to the management team, who are the owners in many instances.

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[56] See Exchange Act Rule 17a-5(e)(3), 17 CFR 240.17a-5(e)(3).

[57] See also Exchange Act Rule 17a-5(c)(2), 17 CFR 240.17a-5(c)(2), regarding audited statements required to be provided to customers.

While economic theory suggests that there are benefits resulting from enhanced transparency, commenters suggested that the benefits may be relatively less for brokers and dealers. There is likely a lesser degree of information asymmetry between owners and managers for entities that are mostly private, closely-held, and small. However, information regarding the auditor may benefit those who are not part of management of the broker or dealer, such as customers. Although these benefits should be considered when determining whether to apply the new rules to brokers and dealers, they must be assessed relative to the potential costs of the required disclosures, which could be disproportionately high for smaller accounting firms that audit brokers and dealers. Overall, it appears likely that the net benefit of the required disclosures would be less for brokers and dealers than for issuers.

Accordingly, at this time, the Board is not extending the Form AP filing requirements to brokers and dealers.[58] The Form AP filing requirements are therefore limited to issuer audits. As the PCAOB and registered public accounting firms gain experience in filing and administering Form AP, and as more information is gathered on broker and dealer audits through the PCAOB's inspections and other oversight functions, the Board will continue to consider whether to make the Form AP requirement applicable to broker and dealer audits and could revisit its decision to limit the Form AP filing requirements to issuer audits.

Audits of Employee Stock Purchase Plans

One commenter on the 2013 Release recommended that the reproposed amendments not apply to the audits of employee stock purchase, savings, and similar

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[58] If a broker or dealer were an issuer required to file audited financial statements under Section 13 or 15(d) of the Exchange Act, the requirements would apply.

plans that file annual reports on Form 11-K. This commenter did not believe that disclosure of the name of the engagement partner or information about other participants in the audit would be meaningful for participants in an employee benefit plan that is subject to PCAOB auditing standards.

The Board believes similar transparency and accountability rationales apply to employee stock purchase, savings and similar plans that file annual reports on Form 11-K. For example, disclosing the name of the engagement partner and other accounting firms that participated in the audit on Form AP could increase audit quality by increasing auditors' sense of accountability. In the Board's view, increasing the audit quality in audits of employee stock purchase, savings and similar plans is important for the protection of employee benefit plan participants. Disclosure of the engagement partner's name for the audits of employee benefit plans will provide additional information about an engagement partner's experience for those engagement partners that also audit other issuers.

Effective Date

The 2015 Supplemental Request suggested making the requirements effective for auditors' reports issued or reissued on or after June 30, 2016 or three months after approval by the SEC, whichever occurs later. Many commenters generally advocated a later effective date, although some suggested a phased approach, with disclosure of the engagement partner implemented first and disclosure of other participants delayed for six months to a year after that to provide time for firms to develop data gathering systems and processes. Commenters that suggested a phased approach said that since the engagement partner was already known by the firm, a June 30, 2016 effective date would be appropriate. Some commenters suggested not linking the effective date to a calendar year-end to allow firms to test and implement new systems at a less busy time of year.

After considering comments, the Board has chosen a phased effective date. If approved by the Commission, the new rules of the Board and amendments to auditing standards will take effect as set forth below:

- Engagement partner: auditors' reports issued on or after January 31, 2017, or three months after SEC approval of the final rules, whichever is later
- Other accounting firms: auditors' reports issued on or after June 30, 2017.

A phased effective date will provide investors with the engagement partner's name as soon as reasonably practicable. Providing a later effective date for the other accounting firms' disclosure allows firms time to develop a methodology to gather information regarding the other accounting firms' participation.

D. Economic Considerations and Application to Audits of Emerging Growth Companies

Economic Considerations

The Board is mindful of the economic impacts of its standard setting. The following discussion addresses in detail the potential economic impacts, including potential benefits and costs, most recently considered by the Board. The Board has requested input from commenters several times over the course of the rulemaking. Commenters provided views on a wide range of issues pertinent to economic considerations, including potential benefits and costs, but did not provide empirical data. The potential benefits and costs considered by the Board are inherently difficult to quantify, therefore the Board's economic discussion is qualitative in nature.

Commenters who commented specifically on the economic analysis in the Board's 2015 Supplemental Request provided a wide range of views. Some commenters provided academic research in support of their views for the Board to consider. Some commenters expressed concern that the economic analysis in the Board's 2015 Supplemental Request was unpersuasive or incomplete. Other commenters said that the Board's economic analysis carefully reviewed the relevant evidence on the potential costs and benefits attributable to the disclosures. The Board has considered all comments received and has sought to develop an economic analysis that evaluates the potential benefits and costs of mandating the disclosures in Form AP, as well as facilitates comparisons to alternative approaches.

Need for Mandatory Disclosure

There exists an information asymmetry[59] between users of the financial statements and management about the company's performance, and high quality financial information can help mitigate this information asymmetry. Audit quality matters to users of the financial statements, because audit quality is a component of financial reporting quality, in that high audit quality increases the credibility of financial reports. Thus, better knowledge of audit quality can help mitigate the information asymmetry between users of the financial statements and management about company performance.

Users of financial statements are generally not in a position to observe the quality of the audit of a public company or the factors that drive audit quality. In addition to relying on the audit committee, which, at least for listed companies, is charged with overseeing the external auditor, users of financial statements may rely on proxies such as

[59] Economists often describe information asymmetry as an imbalance, where one party has more or better information than another party.

the reputation of the accounting firm issuing the auditor's report, aggregated measures of auditor expertise (for example, dollar value of issuer market capitalization audited or audit fees charged), or information about the geographic location of the office where the auditor's report was signed as a signal for audit quality.[60] Users of financial statements could seek to reduce the degree of information asymmetry between them and management by gathering information about the skills, expertise, and independence of the engagement partner and firms that participate in the audit.

The Board is considering a number of ways to provide more information related to audit quality. In addition to the disclosures of the engagement partner and certain audit participants mandated in Form AP, these efforts include formulation of a series of audit quality indicators, a portfolio of quantitative measures that may provide new insights into how quality audits are achieved.[61] The Board is also considering a standard that would update the form and content of the auditor's report to make it more relevant and informative by, among other things, including communication of critical audit matters.[62] The Board intends that, over time, these and other efforts will provide investors and other financial statement users with additional information they can use when evaluating audit quality. When used in conjunction with other publicly available data (including any audit quality indicators that are made publicly available), the name of the engagement partner

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[60] See, e.g., Linda Elizabeth DeAngelo, Auditor Size and Audit Quality, 3 Journal of Accounting and Economics 183 passim (1981); and Jere R. Francis, What Do We Know About Audit Quality?, 36 The British Accounting Review 345 passim (2004).

[61] See PCAOB Release No. 2015-005.

[62] See PCAOB Release No. 2013-005.

and information about other participants in the audit, collectively, could provide more information about audit quality.

PCAOB oversight activities have revealed that audit quality varies among engagement partners within the same firm. PCAOB oversight activities also reveal variations in audit quality among firms, including variations among firms in the global networks established by large accounting firms. In addition to a number of other factors, the PCAOB uses information about engagement partners and other participants in the audit to identify audit engagements for risk-based selections in its inspections program. Academic research also analyzes variations in audit quality at both the firm and engagement partner levels.[63] These findings suggest that firm reputation is an imprecise

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[63] See, e.g., W. Robert Knechel, Ann Vanstraelen, and Mikko Zerni, Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions, 32 Contemporary Accounting Research 1443 (2015); Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, Capital Market Consequences of Audit Partner Quality, 90 The Accounting Review 2143 (2015); and Carol Callaway Dee, Ayalew Lulseged, and Tianming Zhang, Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings, 90 The Accounting Review 1939 (2015). Professors Dee and Aobdia are former and current research fellows at the PCAOB. Their research cited above was undertaken prior to joining the PCAOB. On the point of whether audit quality varies within accounting firms, a commenter suggested additional research to consider. See Steven F. Cahan and Jerry Sun, The Effect of Audit Experience on Audit Fees and Audit Quality, 30 Journal of Accounting, Auditing and Finance 78 (2015) (clients of more experienced CPAs have lower absolute discretionary accruals than clients of less experienced CPAs); Kim Ittonen, Karla Johnstone, and Emma-Riikka Myllymäki, Audit Partner Public-Client Specialisation and Client Abnormal Accruals, 24 European Accounting Review 607 (2015) (a significant negative association between greater public-client specialization and absolute abnormal accruals); and Ferdinand A. Gul, Donghui Wu, and Zhifeng Yang, Do Individual Auditors Affect Audit Quality? Evidence from Archival Data, 88 The Accounting Review 1993 passim (2013) (individual audit partners affect audit quality in ways that are both economically and statistically significant).

signal[64] of audit quality because engagement partners and other audit participants differ in the quality of their audit work.

The difficulty that investors and other financial statement users have in evaluating audit quality may have important effects for accounting firms and the functioning of the audit profession and capital markets.[65] The capacity to differentiate between alternative products is a fundamental requirement of competitive markets.[66] One way to improve the functioning of a market is to provide mechanisms that enable market participants to better evaluate quality, thereby reducing the degree of information asymmetry.

Mandating public disclosure of the name of the engagement partner and other accounting firms that participated in an audit provides financial markets with information that may have otherwise been more costly or difficult to obtain. It enables the development of a standardized and comprehensive source of data that can facilitate comparison and analysis, which would be more valuable than a potentially piecemeal data source that could develop under a voluntary disclosure regime. Mandating public

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64 Information economics frequently treats information as consisting of two components: a signal that conveys information and noise which inhibits the interpretation of the signal. Precision is the inverse of noise so that decreased noise results in increased precision and a more readily interpretable signal. See, e.g., Robert E. Verrecchia, The Use of Mathematical Models in Financial Accounting, 20 Journal of Accounting Research 1 passim (1982).

65 There is a long stream of research regarding the effects that information asymmetry about product features, such as quality, and disclosure have on markets. See, e.g., George A. Akerlof, The Market for "Lemons": Quality Uncertainty and the Market Mechanism, 84 The Quarterly Journal of Economics 488 passim (1970); and Robert E. Verrecchia, Essays on Disclosure, 32 Journal of Accounting and Economics 97 (2001).

66 See, e.g., George J. Stigler, Perfect Competition, Historically Contemplated, 65 The Journal of Political Economy 1 passim (1957).

disclosure also assures that the information is accessible to all market participants, so that any value-relevant information can more readily be incorporated into market prices.

This information may influence investors' decisions and allow them to make better informed investment decisions. The disclosure of information may also lead the identified parties to change their behavior because they know their performance can be more broadly and easily observed by investors and other financial statement users. In general, an important feature of accountability is identifiability.[67] In the context of the audit, transparency will allow market participants to separately identify auditors from the accounting firm signing the auditor's report. This disclosure will impose incremental reputation risk, which should, at least in some circumstances, lead to increased accountability because the ability for investors and other financial statement users to identify and evaluate the performance of engagement partners and other accounting firms may induce changes in behavior.

Because of the influence that engagement partners and other accounting firms participating in the audit can exert over the audit process, information about the people and entities who actually performed the audit of a particular company will be a useful addition to the mix of information related to the audit that investors can use to assess audit quality and hence credibility of financial reporting. As identifying information becomes publicly available, it could also provide a further incentive to engagement partners and other accounting firms that participate in the audit to develop and enhance a

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[67] Academic research finds that accountability is a complex phenomenon and is affected by numerous factors. See, e.g., Jennifer Lerner and Philip Tetlock, Accounting for the Effects of Accountability, 125 Psychological Bulletin 255 passim (1999). See also Todd DeZoort, Paul Harrison, and Mark Taylor, Accountability and Auditors' Materiality Judgments: The Effects of Differential Pressure Strength on Conservatism, Variability, and Effort, 31 Accounting, Organizations and Society 373 (2006).

reputation for providing reliable audits and to avoid being associated with adverse audit outcomes that could be attributed to deficiencies in their audit work.[68]

Under the disclosures adopted by the Board, investors would gain additional information that could help them assess the reputation of not only the firm, but also of the engagement partner on the audits of companies in which they invest, which they can use as a signal for audit quality. Likewise, investors will have visibility into the extent of the audit work being performed by other accounting firms that participated in the audit, including accounting firms in jurisdictions where the PCAOB has been unable to conduct inspections. Collectively, the disclosures, when used in conjunction with other publicly available data, can facilitate investors' ability to assess audit quality and hence credibility of financial reporting by providing investors with information about who conducted the audit and the extent to which the accounting firm signing the auditor's report used the audit work performed by other accounting firms.

Although the disclosure of the name of the engagement partner might provide limited information initially, experience in other countries suggests that over time the disclosures would enable databases to be developed that would allow investors and other financial statement users to evaluate a number of data points about the engagement partner,[69] including:

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[68] Adverse audit outcomes may include financial statement restatements for errors, nontimely reporting of internal control weaknesses, and nontimely reporting of going concern issues, among others.

[69] For example, the Taiwan Economic Journal collects data that covers all public companies in Taiwan and includes, among other things, the names of the engagement partners, the accounting firms issuing auditors' reports, the regulatory sanction history of the partners, and the audit opinions.

- Number and names of other issuer audits for which the partner is the engagement partner;
- Industry experience of the engagement partner;
- Number and nature of restatements of financial statements for which he or she was the engagement partner;
- Number and nature of going concern report modifications on financial statements for which he or she was the engagement partner;
- Number of auditors' reports citing a material weakness in internal control over financial reporting where he or she was the engagement partner;
- Number of years as the engagement partner of a particular company;
- Disciplinary proceedings and litigation in which the engagement partner was involved; and
- Other information about the engagement partner in the public domain, such as education, professional titles and qualifications, and association memberships.

Additional databases may also develop about other accounting firms that participate in public company audits, and additional data points should contribute to the mix of information that investors would be able to use, such as:

- The extent of the audit performed by the firm signing the auditor's report;

- The extent of participation in the audit by other accounting firms in other jurisdictions, including jurisdictions in which the PCAOB cannot currently conduct inspections;[70]
- Whether the other accounting firms are registered with the PCAOB, have been inspected, and the inspection results, if any;
- Industry experience of the other accounting firms;
- Whether the other accounting firms belong to a global network;
- Trends and changes in the level of participation of other accounting firms in the audit work; and
- Disciplinary proceedings and litigation involving the other accounting firms.

These data points, when analyzed together with the audited financial statements, potential audit quality indicators, and information provided on Form AP, should provide investors with more information about the audit and, therefore, the reliability of the financial statements. As a result, this should reduce the degree of information asymmetry about financial reporting quality between investors and company management.

Providing investors with data at this level of specificity will add to the mix of information that they can use. This could induce changes in the market dynamics for audit services because investors would have additional information about the identity of engagement partners and other accounting firms participating in the audit. If investors are able to identify certain engagement partners and other accounting firms that participated

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70 See Non-U.S. Firm Inspections on the PCAOB's website for information about firms in non-U.S. jurisdictions that deny PCAOB inspection access.

in the audit who consistently perform high-quality audit work, the companies audited by these engagement partners and other accounting firms should benefit from a lower cost of capital relative to those companies whose auditor's performance record suggests a higher risk.[71]

As some engagement partners and other accounting firms that participated in the audit develop a reputation for performing reliable audits, a further incentive may develop for others to attract similarly favorable attention. Conversely, as some engagement partners and other accounting firms are associated with adverse audit outcomes that could be attributed to deficiencies in their audit work, others may have additional incentives to perform audits that comply with applicable standards in order to avoid similar association.[72] The disclosures may also create additional incentives for audit committees to engage auditors with a reputation for performing reliable audits. As a result, the disclosures may also promote increased competition based on audit quality.

Baseline

Current PCAOB rules and standards do not require registered firms to publicly disclose the name of the engagement partner or information about other accounting firms participating in the audit. The identity of the engagement partner is known by people close to the financial reporting process, for example by company management and the

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[71] There is an emerging body of academic research analyzing market reactions to disclosure of the engagement partner and the firms participating in audits. See Knechel et al., Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions; Aobdia et al., Capital Market Consequences of Audit Partner Quality; and Dee et al., Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings.

[72] The unintended consequence of engagement partner disclosure creating an incentive for some engagement partners to avoid challenging an aggressive accounting treatment in an effort to protect their reputations is discussed below.

audit committee, that interact directly with the engagement partner. Additionally, auditors are required to communicate to the audit committee certain information about other accounting firms and other participants in the audit.[73]

Today, the name of the engagement partner is disclosed in auditors' reports filed with the SEC in only a small percentage of cases, such as when the audit is conducted by a firm having only one certified public accountant whose name appears in the firm's name or by a foreign firm in a jurisdiction in which local requirements or practice norms dictate identification of the engagement partner. The identity of the engagement partner is also sometimes made available to investors attending an annual shareholders' meeting in person. It is possible that engagement partners could be identified in other ways; for example, an academic study inferred that in instances where accounting firm personnel are copied on issuers' correspondence with the SEC's Division of Corporation Finance, the copy party is the engagement partner.[74] However, because there is no current requirement to disclose information about engagement partners, the process of acquiring this information may be costly and the information may be less useful relative to a database that covers audits across time and is available to all interested users.

With respect to other accounting firms participating in the audit, AS 1205.04 (currently AU sec. 543.04) has prohibited principal auditors from disclosing in the auditor's report the involvement of other accounting firms that participated in the audit

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[73] For example, the auditor is required to communicate the names, locations, and planned responsibilities of other independent public accounting firms or other persons not employed by the auditor that perform audit procedures. See paragraph 10.d of AS 1301 (currently Auditing Standard No. 16), Communications with Audit Committees.

[74] See Henry Laurion, Alastair Lawrence, and James Ryans, U.S. Audit Partner Rotations (Sept. 14, 2015) (working paper, available in Social Science Research Network ("SSRN")).

unless responsibility for the audit has been divided.[75] However, investors and other financial statement users have been able to obtain information about a limited subset of other accounting firms from PCAOB Form 2.[76]

There are no other current requirements under which the identity of other accounting firms participating in the audit would be publicly disclosed and, to the Board's knowledge, firms generally do not make such information public.[77]

The Impact of Disclosure

The final rules adopted by the Board impact certain participants in the audit, financial statement users, and companies to the extent that this information is currently not publicly available and affects participants' decision making. As discussed below, not all of these market participants are affected in the same ways or to the same degree.

The Benefits of Disclosure

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75 The sentence in AS 1205.04 (currently AU sec. 543.04) that states that if the principal auditor decides not to make reference to the work of other auditors, the principal auditor "should not state in his report that part of the audit was made by another auditor because to do so may cause a reader to misinterpret the degree of responsibility being assumed" is deleted under the amendments. In the Board's view, the language included on Form AP clearly states the auditor's responsibility regarding the work of other participants in the audit and should not cause financial statement users to misinterpret or be confused about the degree of responsibility being assumed by the accounting firm signing the auditor's report.

76 PCAOB Form 2 requires independent public accounting firms that audited no issuers during the applicable reporting period to provide information on each issuer for which they "play[ed] a substantial role in the preparation or furnishing of an audit report," as defined by PCAOB Rule 1001(p)(ii).

77 Item 9(e)(6) of Schedule 14A (17 CFR 240.14a-101) requires disclosure of the percentage of hours expended on the audit of the financial statements for the most recent fiscal year by persons other than the principal accountant's full-time, permanent employees, if greater than 50% of total hours, but does not require identification of such persons.

The final rules adopted by the Board aim to improve the transparency and accountability of issuer audits by adding to the mix of information available to investors. Among other things, the disclosures would allow investors to research whether engagement partners have been associated with adverse audit outcomes that could be attributed to deficiencies in their audit work or have been sanctioned by the PCAOB or SEC. The disclosures could also allow financial statement users to understand how much of the audit was performed by the firm issuing the report and how much was performed by other accounting firms, including those in jurisdictions where the PCAOB has been unable to conduct inspections. Moreover, as the disclosed information accumulates and is aggregated and analyzed in conjunction with other publicly available information, investors and financial intermediaries (for example, research analysts and credit rating agencies) would have a basis to evaluate additional data points, together with the information disclosed on Form AP, that may give them insight into individual audits. While this information may not be useful in every instance or meaningful to every investor, as discussed in more detail below, academic research suggests that, overall, the disclosures add to the mix of information used by investors.[78]

Disclosures regarding the engagement partner and the other accounting firms that participated in the audit would allow investors and other financial statement users to supplement the accounting firm's name with more granular information when assessing audit quality and hence the credibility of financial reporting. The disclosed information will provide investors and other financial statement users with more information about

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[78] See, e.g., Knechel et al., Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions; Aobdia et al., Capital Market Consequences of Audit Partner Quality; and Dee et al., Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings.

individual audits in accounting firms that conduct a large number of issuer audits. This information should be particularly valuable to investors where there is a greater degree of information asymmetry, as may be the case for smaller and less seasoned public companies.

The new disclosures should, at least in some circumstances, also increase accountability for auditors through Justice Brandeis' "disinfectant" effect: disclosure of their names, when accompanied by other information about their history, should create incentives for the engagement partner and other accounting firms to take voluntary steps that could result in improved audit quality. The additional incentives likely will be a result of Form AP disclosures imposing additional reputation risk on engagement partners and other accounting firms. The effect on accountability is not expected to be uniform across all engagement partners and other accounting firms.

Transparency

The PCAOB uses various data, including information about engagement partners and other accounting firms, to identify audit engagements for its risk-based inspections program. Over time, financial statement users would be able to combine the disclosed information with other financial information, such as any previous adverse audit outcomes that could be attributed to deficient audit work, which would allow them to better assess the quality of individual audits. For example, investors and other financial statement users would be able to observe whether financial statements audited by the engagement partner have been restated or whether the engagement partner has been sanctioned by the PCAOB or SEC, and investors and other financial statement users could also research other publicly available information about the engagement partner.

Commenters provided mixed views regarding the usefulness of the disclosures. While some commenters argued that the information would not be useful or could be confusing,[79] other commenters indicated that this information may be useful for investment decisions and decisions about whether to ratify the appointment of an accounting firm. On the point of whether investors may misunderstand the role of engagement partners, for example, a commenter cited academic research suggesting that, ". . . investors process public information in a sophisticated manner and investor responses to public disclosures cause relevant information to be reflected in security prices."[80]

Disclosure Regarding the Engagement Partner

Other countries have adopted or may soon adopt requirements to disclose the name of the engagement partner. Experiences from countries that have already adopted similar disclosure requirements are important in assessing possible consequences, intended or not, of any changes in this area. Recent academic research conducted using data from those jurisdictions has studied how investors and other financial statement

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[79] See above for a discussion of commenter reactions to the disclosure requirements.

[80] See Letter from Maureen McNichols, Marriner S. Eccles Professor of Public and Private Management and Accounting, Stanford University Graduate School of Business, to the Office of the Secretary, PCAOB (Aug. 31, 2015). The commenter references several academic papers in support of the argument that investors are able to incorporate information into security prices. See Maureen McNichols, Evidence of Informational Asymmetries from Management Earnings Forecasts and Stock Returns, 64 The Accounting Review 1 (1989) (The differential response to forecasts which are ex post too high or too low indicates that, in the aggregate, investors do not take management forecasts at face value.), or Maureen F. McNichols and Stephen Stubben, The Effect of Target-Firm Accounting Quality on Valuation in Acquisitions, 20 Review of Accounting Studies 110 (2015) (accounting information helps mitigate information asymmetry between acquirers and target firms).

users use the information to assess audit quality, and hence credibility of financial reporting. Disclosures of this type have been found to have informative value in other settings, and empirical studies using data from the jurisdictions where the disclosures are available, discussed below, suggest that these disclosures would be useful to investors and other financial statement users. However, in considering the implications of these studies for the audits under the Board's jurisdiction, the Board has been mindful, as some commenters suggested, of the specific characteristics of the U.S.-issuer audit market, which may make it difficult to generalize observations made in other markets. For example, results from non-U.S. studies may depend on different baseline conditions (for example, market efficiency, affected parties, policy choices, legal environment, or regulatory oversight) than prevail in the United States.

Several studies have examined whether engagement partner disclosure requirements affect the price of securities and promote a more efficient allocation of capital. Knechel et al. found "considerable evidence that similar audit reporting failures persist for individual partners over time" and that, in Sweden, where engagement partners' names are disclosed, "the market recognizes and prices differences in audit reporting style among engagement partners" of public companies.[81]

In a critique that will be published alongside the original manuscript, Kinney described several issues that challenge the validity of the results from the Knechel et al. paper.[82] In particular, Kinney argued that it may be difficult to generalize the results from

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[81] See Knechel et al., Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions.

[82] See William R. Kinney, Discussion of "Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions," 32 Contemporary Accounting Research 1479 (2015).

the Knechel et al. paper because many of the results from the original paper were obtained using data on private companies that undergo statutory audits under Swedish law. In addition, Kinney argued that the accuracy of going concern evaluations is a relatively poor measure of audit quality compared to financial statement misstatements. Kinney also noted that the Knechel et al. paper does not attempt to control for the effects of the mechanism by which audit partners are assigned to specific engagements. Kinney argued that if accounting firms assign high-quality audit partners to risky audit engagements, then the results from the Knechel et al. paper would have the opposite interpretation. Ultimately, Kinney argued that it may be inappropriate to conclude that engagement partner names would provide useful information to U.S. financial markets based on evidence obtained from the available studies.[83]

Other papers using data from foreign jurisdictions also analyze whether capital markets react to data on engagement partner quality and experience. For example, Aobdia et al. used data from Taiwan and found that both debt and equity markets priced engagement partners' quality, where higher quality is measured by the companies' lower level of discretionary accruals.[84] Results are similar when the authors used regulatory

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[83] Kinney suggests that other papers referenced in the Board's 2013 release could benefit from additional effort to bolster the validity of the research methodologies. For example, Kinney suggested that the authors of these papers could work with accounting firms to compare the proxies for audit quality used in academic research, such as discretionary accruals or the accuracy of going concern evaluations, with the accounting firms' proprietary assessment of engagement partner quality. The Board recognizes that discretionary accruals and the accuracy of going concern evaluations are only proxies for audit quality. However, a recent academic study has assessed the validity of commonly used proxies for audit quality by analyzing their associations with PCAOB inspection findings, which may be a more precise measure of audit quality. See Daniel Aobdia, The Validity of Publicly Available Measures of Audit Quality: Evidence from the PCAOB Inspection Data (June 30, 2015) (working paper, available in SSRN).

[84] See Aobdia et al., Capital Market Consequences of Audit Partner Quality.

sanctions history as an alternate measure of engagement partner quality, which they argue is less subject to measurement error than estimates of discretionary accruals. This result partially addresses the concerns raised in Kinney's discussion paper about using discretionary accruals as a measure of audit quality.[85] Evidence from another study using data from Taiwan is consistent with these results.[86]

Another paper using data from Taiwan found that recent financial statement restatements disclosed by an engagement partner's client are associated with a higher likelihood of that engagement partner's other clients misstating in the current year.[87] However, the authors find that this effect was mitigated by the engagement partner's experience. Although these results are based on evidence from a non-U.S. jurisdiction, they suggest that the disclosures could provide investors with useful information about the reliability of other financial statements audited by individual engagement partners who have been associated with a recent financial statement restatement.

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85 See Kinney, Discussion of "Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions."

86 See Wuchun Chi, Linda A. Myers, Thomas C. Omer, and Hong Xie, The Effects of Audit Partner Pre-Client and Client-Specific Experience on Audit Quality and on Perceptions of Audit Quality (Jan. 2015) (working paper, available in SSRN) (Auditor experience is an important factor in determining audit quality and the perceived level of audit quality as measured by the bank loan interest rate spread).

87 See Wuchun Chi, Ling Lei Lisic, Linda A. Myers, and Mikhail Pevzner, Information in Financial Statement Misstatements at the Engagement Partner Level: A Case for Engagement Partner Name Disclosure? (Jan. 2015) (working paper, available in SSRN). There is an additional paper with similar results about the effects of engagement partner performance history and the likelihood of restatement. See also Yanyan Wang, Lisheng Yu, and Yuping Zhao, The Association between Audit-Partner Quality and Engagement Quality: Evidence from Financial Report Misstatements, 34 Auditing: A Journal of Practice and Theory 81 (2015).

The limited research on engagement partner identification in the United States provides some support that the name of the engagement partner may be used as a signal of audit quality. Using data collected from SEC comment letters, Laurion et al. find substantial increases in the number of material restatements of previously issued financial statements and total valuation allowances after engagement partner rotations.[88] While the authors do not explicitly analyze potential benefits related to engagement partner disclosure, they argue that engagement partner disclosures would reveal partner rotations, thus providing meaningful information to investors, supporting the PCAOB's rulemaking initiative.

The Board believes that a requirement to disclose the name of the engagement partner may provide useful information to financial markets based on extensive public outreach and its own experience conducting its inspection program. The Board notes that it may not be possible to generalize results of academic studies, including those based on data in foreign jurisdictions. However, the papers discussed above typically find evidence consistent with a broad stream of academic literature demonstrating that markets benefit from more information associated with quality.

Disclosure Regarding Other Participants in the Audit

Empirical evidence also suggests that the market values information about other participants in the audit. Dee et al. examined the effect on issuers' stock prices[89] when investors learn (from participating auditors' Form 2 filings) that these issuers' audits

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[88] See Laurion et al., U.S. Audit Partner Rotations. Engagement partner rotation was inferred from changes in accounting firm personnel copied on issuer correspondence with the SEC's Division of Corporation Finance.

[89] See Dee et al., Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings.

included the substantial use of other accounting firms that do not audit other issuers. Using event study methodology, the authors find that, when accounting firms disclosed in Form 2 the identity of issuer audits in which they substantially participated, the stock prices of these issuers were negatively affected. The authors also find that earnings surprises for these issuers are less informative to the stock market after these disclosures in Form 2 are made, meaning that investors perceive earnings quality to be lower.[90] The authors concluded that the results of the study suggested "that PCAOB mandated disclosures by auditors of their significant participation in the audits of issuers provides new information, and investors behave as if they perceive such audits in which other participating auditors are involved negatively." It should be noted that the negative market reaction in this instance may, at least to some extent, reflect the fact that the other participants in the study were auditors that have no issuer clients themselves but play a substantial role (i.e., participate at least 20%) in an audit of an issuer. The disclosures being adopted would also apply to other accounting firms that take a smaller role in the audit and/or may have more experience in the application of PCAOB standards to audits of issuers. Market reaction to disclosures regarding these types of participants may differ.

To the extent that investors and other financial statement users are better able to assess the level of audit risk stemming from multi-location engagements, it should incent the accounting firm signing the auditor's report to use higher-quality, less risky firms as

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[90] Academic research suggests that the financial markets' reaction to earnings surprises depends, among other things, upon the extent to which the disclosed earnings are perceived to be reliable. Thus, if markets react less to earnings surprises after an event, it could suggest that the earnings are perceived to be less reliable after the event. Academic research has tied this to perceived audit quality by investors. See, e.g., Siew Hong Teoh and T.J. Wong, Perceived Auditor Quality and the Earnings Response Coefficient, 68 The Accounting Review 346 (1993).

other audit participants. If investors react negatively to the use of an affiliated accounting firm that was previously associated with a failed audit, it may encourage the accounting firm signing the auditor's report to enhance their supervision and risk management practices.[91] It should also provide other accounting firms incentives to increase the quality of their audit work to help ensure that they can continue to receive referred audit work.

Accountability

Public disclosure of the name of the engagement partner and other accounting firms may create incentives for the engagement partner and other accounting firms to take voluntary steps that could result in improved audit quality. As discussed above, the Board expects that external sources would develop a body of information about the histories of engagement partners and other accounting firms. Although auditors already have incentives to maintain a good reputation, such as internal performance reviews, regulatory oversight, and litigation risk, such public disclosure likely will create an additional reputation risk, which should provide an incremental incentive for auditors to maintain a good reputation, or at least avoid a bad one. While this would not affect all engagement partners and all other accounting firms participating in audits to the same degree, as some already operate with a high sense of accountability, others may respond to the additional incentives to deliver high quality audits.

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[91] On whether reputational effects may incent global network firms to monitor audit work performed by an affiliate, there is a paper documenting that global audit firm networks have created a network-wide reputation that is susceptible not only to failures of the U.S. Big 4, but also to those of non-U.S. affiliates. See Yoshie Saito and Fumiko Takeda, Global Audit Firm Networks and Their Reputation Risk, 29 Journal of Accounting, Auditing and Finance 203 (2014).

The additional incentives likely will be a result of Form AP disclosures imposing additional reputation risk on engagement partners and other accounting firms. As described in the economic literature, reputation risk is not imposed by regulators or courts, but rather by the market through actions such as the threat of termination of business relationships. Auditors and other accounting firms that participated in audits already face some degree of reputation risk. For example, auditors' names are known by their issuers' audit committees, within their audit firms, and to some extent in the audit industry; these parties can potentially alter or terminate current business relationships with the partners or reduce the probability of their being hired in the future, thereby imposing reputation risk on engagement partners. Form AP, by making names publicly available, will further increase reputation risk.

Disclosure Regarding the Engagement Partner

Form AP will make the names of engagement partners known to investors and audit committees of companies that have not worked with the engagement partner. To the extent such knowledge affects their current business relationships or future job market prospects, Form AP disclosures likely will impose additional reputation risk on engagement partners. For example, shareholders may express their discontent with an engagement partner though their voting decisions on the ratification of the audit firm, and to the extent that shareholder votes can affect the engagement partner's job market projects, the engagement partner would face increased reputation risk, hence higher accountability.

Many investors, as well as some other commenters, believe that public identification of the engagement partner may result in increased accountability, which could prompt voluntary changes in behavior. However, other commenters, primarily accounting firms, asserted that disclosure of engagement partners would not affect accountability. If engagement partner behavior were to change, such changes could include increased professional skepticism, which could, in turn, result in better supervision of the engagement team and lower reliance on management's assertions. The auditor may have greater willingness to challenge management's assertions in the auditor's consideration of the substance and quality of management's financial statements and disclosures. In addition, public disclosure of the name of the engagement partner may make that person less willing to accept an inappropriate position accepted by a previous engagement partner because of the potential effects on his or her reputation.[92] The disclosures being adopted by the Board will reveal engagement partner rotations to investors, including instances where engagement partners left the engagement before rotation would have been required.

Academic research also analyzed whether engagement partner disclosures has an effect on accountability.[93] For example, a recent study examined the impact of the European Union's audit engagement partner signature requirement on audits in the United

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[92] As discussed previously, an academic study, analyzing instances where engagement partner rotation can be inferred, documents an increased rate of financial statement restatements following the rotation of engagement partners. See Laurion, et al., U.S. Audit Partner Rotations.

[93] See, e.g., Joseph V. Carcello and Chan Li, Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom, 88 The Accounting Review 1511 passim (2013); Allen D. Blay, Matthew Notbohm, Caren Schelleman, and Adrian Valencia, Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate, 18 International Journal of Auditing 172 (2014); and Ronald R. King, Shawn M. Davis, and Natalia M. Mintchik, Mandatory Disclosure of the Engagement Partner's Identity: Potential Benefits and Unintended Consequences, 26 Accounting Horizons 533 passim (2012).

Kingdom and found improvements in several proxies for audit quality,[94] as well as a statistically significant increase in audit fees, after controlling for client and auditor characteristics.[95] It is worth highlighting that this study evaluated a policy alternative (a signature requirement) that some commenters have asserted would have a more pronounced effect than the rules being adopted. In addition, the authors note that there were several other audit and financial reporting requirements implemented in the United Kingdom contemporaneously with the signature requirement and, accordingly, it is not possible for the authors to rule out the possibility that these other requirements may have driven their results. Furthermore, the study was conducted using data from the period of the recent financial crisis, which may also have affected the results.

This contrasts with another study suggesting that disclosure requirements could produce limited or no observable improvement in audit quality.[96] Blay et al. analyzed data from the Netherlands and were unable to document any statistically significant changes in audit quality as measured by estimates of earnings quality. The authors

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[94] Specifically, Carcello and Li found a significant decline in abnormal accruals, a decrease in the propensity to meet an earnings threshold, an increase in the incidence of qualified auditors' reports, and an increase in a measure of earnings informativeness. Some commenters criticized the use of one of these metrics, abnormal accruals, as a proxy for audit quality. While abnormal accruals are an imperfect proxy for audit quality, the results were corroborated using alternate proxies.

[95] Specifically, they find that the increase in audit fees from $475,900 to $477,000 between the pre- and post-signature requirement periods, was statistically significant, after controlling for client and auditor characteristics that could impact audit fees. Carcello and Li, Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom, at 1532.

[96] See Blay et al., Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate.

speculated that the lack of findings may be attributable to sufficiently high levels of accountability and audit quality in the Netherlands.

As previously noted, the baseline conditions in other jurisdictions may differ from those in the United States, which could affect the extent to which these findings can be generalized to the United States.

Disclosure Regarding Other Participants in the Audit

While some commenters questioned the value of disclosures regarding other participants in the audit, others argued that the disclosure of the extent of the audit work performed by other participants in the audit could increase accountability for accounting firms that are named. Other commenters indicated that, as with disclosure of the name of the engagement partner, information sources would likely develop over time. This may increase scrutiny of the overall reputation of such firms. This increased reputational risk should incent other accounting firms participating in an audit to perform high-quality audits for all engagements. Further, if another accounting firm performs a substantial portion of the audit, then its reputation would be closely tied to the overall results of the audit. This may help further align the interests of the other accounting firms participating in the audit with investors and other financial statement users and thus enhance audit quality.

The final rules may also incent global network firms to increase accountability for all of the firms in their networks. The audit process for many multinational companies currently depends on the affiliated firms within a global network to audit company subsidiaries in their respective countries. This introduces vulnerabilities to the audit if quality varies across the network. To counter this risk, the global network firm may be further incented to increase its efforts to maintain uniform quality control standards and accountability across the global network. The global network firm may also improve its monitoring of other audit participants to ensure audit quality as well. This increased accountability of the other accounting firms that participated in the audit to the accounting firm signing the auditor's report could improve audit quality.

For principal auditors that are not part of a global network, disclosures regarding other accounting firms participating in the audit could provide an additional incentive for the principal auditor to choose firms that have a good reputation for quality.

The Costs and Other Possible Consequences of Disclosure

Over the course of the rulemaking, the Board was mindful of concerns voiced by commenters about potential compliance and other costs associated with public disclosure. In particular, many commenters on the 2013 Release argued that naming the engagement partner and other audit participants in the auditor's report, as contemplated by the 2013 Release, may create both legal and practical issues under the federal securities laws and therefore increase the cost of performing audits compared to the costs in the current environment. Some commenters suggested that an increase in costs would be passed on to companies through higher audit fees. Some commenters urged the Board to proceed with the new transparency requirements, if it determined to do so, by mandating disclosure in an amended PCAOB Form 2 or in a newly created PCAOB form. Some commenters suggested that disclosure on a form may not raise the same concerns about liability or consent requirements as disclosure in the auditor's report.

Direct Costs

Under the Form AP approach, the direct costs for auditors would include the costs of compiling information about the engagement partner and other participants in the audit and calculating the percentage of audit work completed by other participants in the audit. In general, costs should be lower for audits not involving other participants because the only required disclosure would be the engagement partner's name and Partner ID. Compliance with the Form AP approach will entail initial costs of implementation—which could include creating systems to assign and track Partner ID numbers and to gather the required information from each engagement team—and ongoing costs associated with aggregating the information and filling out and filing Form AP.

A number of commenters observed that administrative effort would be required to compile data for, prepare, and review the required disclosures, both initially and on an ongoing basis. Accounting firms that commented on this issue asserted that the administrative efforts and related costs would not be significant.

Indirect Costs and Possible Unintended Consequences

In addition to the direct costs, there may be indirect costs and unintended consequences associated with the disclosures under consideration, some of which could be more significant than the direct compliance costs.

Differential Demand Based on Reputation

The disclosures aim to provide investors and other financial statement users with additional information they can consider in relation to audit quality at the engagement level, as opposed to the accounting firm level. This may result in some degree of differentiation in stature and reputation of individual auditors who serve as engagement partners and in other accounting firms that participate in audits.

Currently, investors and other financial statement users use proxies for quality, such as accounting firm size and industry experience, to differentiate accounting firms.[97] Some commenters suggested that the new requirements could be detrimental to smaller and less well-known accounting firms, even when they perform audit work in accordance with PCAOB standards. Others raised concerns that public identification of the engagement partner could lead to a rating, or "star," system resulting in particular individuals and entities being in high demand, to the unfair disadvantage of other equally qualified engagement partners. It is also possible that engagement partners may be unfairly disadvantaged because of association with an adverse audit outcome, which could be particularly damaging to their professional development and future opportunities if it occurred at the outset of their career. Unwarranted attribution of an adverse audit outcome to an engagement partner could also adversely affect other public companies whose audits were led by the same engagement partner. While commenters did not raise similar concerns related to other accounting firms participating in audits, the implications of identification could be similar.

Differential demand based on reputation could be a cost of the disclosures under consideration to the extent the reputation (whether good or bad) was undeserved. It may be reasonable, however, to expect that financial markets would be discerning in considering information about the engagement partner and other accounting firms in the audit. As one commenter stated, "investors are accustomed to weighing a variety of factors when assessing performance. . . . This approach can be seen in the careful analysis investors and proxy advisors do when they are asked to withhold support from directors

[97] See DeAngelo, Auditor Size and Audit Quality, and Francis, What Do We Know About Audit Quality?

standing for election. There is no reason to believe they will do otherwise with respect to auditors."[98] Academic research also suggests that financial markets do not treat all restatements and going concern modifications equally. Instead, financial markets respond to the facts and circumstances related to an individual restatement or going concern modification.[99] The results from this research suggest that financial markets may be similarly discerning when forming their opinion about an engagement partner or other participant in the audit.

Overauditing and Audit Fees

Some commenters have suggested that the increased reputational risk associated with public disclosure may lead to instances of overauditing, in which the engagement team undertakes more procedures than they otherwise might have performed, which do not contribute to forming an opinion on the financial statements. It should be noted that the final rules are not performance standards and do not mandate the performance of additional audit procedures. However, it is possible that some auditors may perform additional procedures as a result of the requirements (for example, because they want to obtain a higher level of confidence in some areas). This could result in unnecessary costs and an inefficient utilization of resources, and might cause undue delays in financial reporting. If and to the extent there are increased costs for auditors as a result of the new

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98 See Letter from Denise L. Nappier, State Treasurer, State of Connecticut, to the Office of the Secretary, PCAOB (Mar. 17, 2014), at 3.

99 Academic research documents differences in the market impact of restatements and going concern modifications based on the specific facts and circumstances of the events. See, e.g., Susan Scholz, The Changing Nature and Consequences of Public Company Financial Restatements 1997–2006, The Department of the Treasury (Apr. 2008); and Krishnagopal Menon and David D. Williams, Investor Reaction to Going Concern Audit Reports, 85 The Accounting Review 2075 passim (2010).

rules, however, such costs may be passed on—in whole, in part, or not at all—to companies and their investors in the form of higher audit fees.[100] Further, increased procedures may also require additional time from the company's management to deal with such procedures.

While the possibility of overauditing cannot be eliminated, competitive pressures to reduce the costs of conducting the audit should provide counterincentives that mitigate that risk.

Other Changes in Behavior of Engagement Partners

A recent study documents certain ways in which the disclosures could change the incentives of engagement partners resulting in changed behavior.[101] Under a purely theoretical model developed by Carcello and Santore that has not yet been empirically tested, potential reputation costs stemming from disclosure leads engagement partners to become more conservative and gather more evidence than the accounting firm finds to be optimal. Although the results of the study suggested that the disclosures lead to increased audit quality, the authors' analysis indicated that engagement partner identification likely leads to decreases in the welfare[102] of engagement partners and accounting firms. The

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100 The Board is aware of public reports that have analyzed historical and aggregate data on audit fees and which suggest that audit fees generally have remained stable in recent years, notwithstanding the fact that the Board and other auditing standard setters have issued new performance standards during that period. See, e.g., Audit Analytics, Audit Fees and Non-Audit Fees: A Twelve Year Trend (Sept. 30, 2014). In its 2013 Release, the Board sought data that might provide information or insight into such costs. As noted previously, commenters did not provide data regarding the extent of such costs.

101 See Joseph V. Carcello and Rudy Santore, Engagement Partner Identification: A Theoretical Analysis, 29 Accounting Horizons 297 (2015).

102 The term "welfare" can be thought of as overall well-being. In economic theory, welfare typically refers to the prosperity and living standards of individuals or

authors argued that changes in the welfare of engagement partners and accounting firms may not be optimal within their theoretical analysis.

The Carcello and Santore analysis is limited since they do not explicitly analyze the effects of increased auditor conservatism and increased audit quality on investor utility. Therefore, their description of the "society" is missing a key participant, the investors. This limitation notwithstanding, they do note that increased conservatism at large accounting firms may actually be socially optimal as it could limit damages to market participants stemming from aggressive financial reporting at large issuers.

<u>Disincentive to Perform Risky Audits</u>

Some commenters have suggested that engagement partners and other accounting firms participating in audits may avoid complex and/or risky audits because of the potential negative consequences of an adverse audit outcome. It is also possible that accounting firms could increase audit fees or adjust their client acceptance and retention policies because of heightened concerns about liability, including the cost of insurance, or reputational risks. This could enhance auditors' performance of their gatekeeper function to the extent that it increases auditors' reluctance to take on clients at a high risk of fraudulent or otherwise materially misstated financial statements. But it would impose a cost if firms or partners become so risk averse that companies that do not pose such risk cannot obtain well-performed audits. This could effectively compel certain particularly risky companies to use engagement partners or accounting firms with substandard reputations or, in extreme circumstances, lead them to cease SEC reporting. If investors are better able to evaluate the quality of audit work performed by engagement partners

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groups. Some of the typical factors that are accounted for in welfare functions (or utility functions) include: compensation, leisure, effort, reputation, et cetera.

and other accounting firms participating in the audit, companies that engage accounting firms with a reputation for substandard quality may experience an increased cost of capital.

Mismatch of Skills

Some commenters suggested that reputational concerns may lead audit committees not to select qualified engagement partners associated with prior restatements and to select a perceived "star" partner. It is, therefore, possible that, in some instances, high-demand auditors might be engaged when other auditors whose skills may be more relevant for a particular engagement are not selected. This could result in decreased audit quality. However, accounting firms have incentives to staff engagements appropriately, and high-demand engagement partners would also be incented to avoid performing audits for which they are not qualified in order to maintain that status or to mitigate any skill mismatch and maintain or enhance their reputation by consulting with others within their firm as necessary to ensure audit quality.

The ability to identify partners and other accounting firms involved in specific engagements could also facilitate the intentional selection of auditors with a reputation for substandard quality. Companies may do this for a variety of reasons, including the potential for lower audit fees or to identify auditors who are less likely to challenge management's assertions.

Possible Changes in Competitive Dynamics

Differentiation in stature and reputation of individual auditors who serve as engagement partners, and in other accounting firms that participate in audits, could have a number of competitive effects. One commenter suggested that transparency could create a permanent structural bias against smaller, less-known firms and partners as audit committees may be reluctant to engage firms or select partners that are not well-established or well-known. It appears that the disclosures under consideration could promote increased competition based on factors other than general firm reputation. In particular, if investors are better able to assess variations in audit quality, any resultant financial market effects should incent accounting firms to increase the extent to which they compete based on audit quality.

Moreover, the disclosures could result in changes to the market dynamics for the services of engagement partners and other accounting firms participating in audits. The ability to differentiate among engagement partners and among other accounting firms participating in audits could change external perceptions of particular partners and accounting firms, which may affect the demand for their services.

It should be noted, however, that a marked increase in the mobility of engagement partners and other accounting firms participating in audits seems unlikely due to high switching costs and contractual limitations. For example, partnership agreements, noncompete agreements, and compensation and retirement arrangements may affect partners' incentives and contractual ability to change firms. In addition, the costs to an issuer of replacing the global audit team and explaining the decision to change accounting firms to the market may affect companies' incentives to follow an engagement partner to a new firm. As a result, engagement partners may be reluctant to or contractually precluded from changing accounting firms, and those who elect to change firms may be unable to bring their clients with them. Additionally, the five-year partner rotation requirement would preclude an engagement partner from serving a company for more than five years, even if the engagement partner switched accounting firms.[103]

Potential Liability Consequences

The Board believes that disclosure on Form AP appropriately addresses concerns raised by commenters about liability. As commenters suggested, disclosure on Form AP should not raise potential liability concerns under Section 11 of the Securities Act or trigger the consent requirement of Section 7 of that Act because the engagement partner and other accounting firms would not be named in a registration statement or in any document incorporated by reference into one.[104] While the Board recognizes that commenters expressed mixed views on the potential for liability under Exchange Act Section 10(b) and Rule 10b-5 and the ultimate resolution of Section 10(b) liability is outside of its control, the Board nevertheless does not believe any such risks warrant not proceeding with the Form AP approach.

Alternatives Considered

After considering these factors and public comments, the Board adopted new rules and amendments to its standards that require the names of the engagement partner and certain other audit participants to be disclosed in a newly created PCAOB form, Form AP. Commenters have indicated that disclosure in Form AP could produce the intended benefits of transparency while addressing concerns related to auditor liability.

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[103] Rule 2-01(c)(6) of Regulation S-X, 17 CFR 210.2-01(c)(6); see also Section 203 of the Sarbanes-Oxley Act.

[104] While the requirement to file Form AP is triggered by the issuance of an auditor's report, the form would not automatically be incorporated by reference into or otherwise made part of the auditor's report.

As described below, the Board has considered a number of alternative approaches to achieve the potential benefits of enhanced disclosure.

Alternatives Considered Previously

Over the past several years, the Board has considered a number of alternative approaches to the issue of transparency. Initially, the Board considered whether an approach short of rulemaking would be a less costly means of achieving the desired end. The Board's usual vehicles for informal guidance—such as staff audit practice alerts, answers to frequently asked questions, or reports under PCAOB Rule 4010, Board Public Reports—did not seem suitable. U.S. accounting firms have not voluntarily disclosed information about engagement partners. Also, even if some auditors disclosed more information under a voluntary regime, practices among auditors likely would vary widely. That would defeat one of the Board's goals of achieving widespread and consistent disclosures about the auditors that carry out PCAOB audits. Thus, the Board did not pursue an informal or voluntary approach.

In the 2009 Release, the Board considered a requirement for the engagement partner to sign the auditor's report in his or her own name in addition to the name of the accounting firm. A number of commenters supported and continue to support the signature requirement. However, many other commenters opposed it, mainly because including the signature in the auditor's report, in their view, would appear to minimize the role of the accounting firm in the audit and could increase the engagement partner's liability. Some commenters believed that this alternative would increase both transparency and the engagement partner's sense of accountability. Other commenters believed that engagement partners already have sufficient incentives to have a strong sense of accountability and that signing their own name on the audit opinion would not affect that.

In the 2011 Release, in addition to the requirement to disclose the name of the engagement partner in the auditor's report, the Board proposed to add to Form 2, the annual report, a requirement to disclose the name of the engagement partner for each audit required to be reported on the form. As originally proposed, disclosure on Form 2 would supplement more timely disclosures in the auditor's report by providing a convenient mechanism to retrieve information about all of a firm's engagement partners for all of its audits. The 2011 Release also proposed to require disclosure about other participants in the most recent period's audit in the auditor's report.

The Board also considered only requiring disclosure in Form 2. There are, however, a number of disadvantages to a Form 2-only approach, as discussed in the 2013 Release. It would delay the disclosure of information useful to investors and other financial statement users from 3 to 15 months.[105] It also would make the information more difficult to find by investors interested only in the name of the engagement partner for a particular audit, rather than an aggregation of all of the firm's engagement partners for a given year, because they would have to search for it in the midst of unrelated information in Form 2.

Some commenters on both the 2011 Release and 2013 Release suggested that the names of the engagement partner and the other participants in the audit should be included, if they were to be disclosed at all, not in the auditor's report but on an existing

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[105] Form 2 must be filed no later than June 30 of each year—according to PCAOB Rule 2201, Time for Filing of Annual Report—and covers the preceding 12-month period from April 1 to March 31; see Form 2, General Instruction 4.

or newly created PCAOB form only. This would make the information publicly available, while responding to concerns expressed by commenters related to liability and related practical issues. Some commenters on the 2013 Release also suggested that these disclosures would be more appropriately made in the company's audit committee report.

In considering commenters' views, the Board also considered providing auditors the option of making disclosure either in the auditor's report or on a newly created PCAOB form. This alternative would have had the advantage of allowing auditors to decide how to comply with the disclosure requirements based on their particular circumstances, may have imposed lower compliance costs in some instances compared to mandatory form filing or mandatory auditor's report disclosure, and may have resulted in more disclosures in the auditor's report than a mandatory form because some auditors may have preferred to avoid the cost of filing the form by disclosing the information in the auditor's report. However, such an approach would have permitted disclosures in multiple locations, which could have caused confusion and increased search costs compared to either auditor's report disclosure or a mandatory form.

Disclosure in the Auditor's Report

Under the alternative proposed in the 2013 Release, auditors would have been required to disclose the name of the engagement partner and certain other participants in the audit in the auditor's report. This approach has certain benefits to market participants related to timing and visibility of the disclosures. For example, mandated disclosure in the auditor's report would reduce search costs for market participants in some instances. The required information would be disclosed in the primary vehicle by which the auditor communicates with investors and where other information about the audit is already found, and would be available immediately upon filing with the SEC of a document containing the auditor's report. However, market participants may incur costs to aggregate the information disclosed in separate auditors' reports.

Some commenters indicated that, compared to disclosure on Form AP, disclosing the information in the auditor's report may have an incrementally larger effect on the sense of accountability of identified participants in the audit because, for example, the engagement partner would be involved in the preparation of the auditor's report, but may not be involved in the preparation of the form. As discussed above, increased auditor accountability could have both positive and potentially some negative effects on the audit.

Mandating disclosure of the name of the engagement partner in the auditor's report would also create consistency between PCAOB auditing standards and requirements of other global standard setters regarding engagement partner disclosure.[106] For example, 16 out of the 20 countries with the largest market capitalization, including 7 E.U. member states, already require disclosure of the name of the engagement partner in the auditor's report.[107] However, it should be noted that baseline conditions, including those regarding auditor liability, may differ among these jurisdictions.

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[106] In 2014, the IAASB adopted ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, which generally requires disclosure of the name of the engagement partner in the auditor's report. Following this adoption, disclosure of the engagement partner's name in the auditor's report of a listed entity will become the norm in those jurisdictions that have adopted the ISAs as adopted by the IAASB. See also 2013 Release for further discussion of the requirements regarding engagement partner disclosure in other jurisdictions.

[107] Out of the 20 countries with the largest market capitalization (based on data obtained from the World Bank, World Development Indicators), the four that currently do not require the disclosure of the name of the engagement partner are the United States, Canada, Republic of Korea, and Hong Kong. The 16 countries that

As previously discussed, disclosure in the auditor's report could trigger the consent requirement of Section 7 and subject the identified parties to potential liability under Section 11 of the Securities Act. As a result, there could be additional indirect costs to engagement partners and other accounting firms participating in audits associated with defense of the litigation.

Disclosure on a New PCAOB Form

Under the final rules adopted by the Board, firms are be required to disclose the name of the engagement partner and certain other accounting firms that participated in the audit in a separate PCAOB form to be filed by the 35th day after the date the auditor's report is first included in a document filed with the SEC, with a shorter deadline of 10 days for initial public offerings.

The approach described in the 2015 Supplemental Request would allow auditors to decide whether to also provide disclosure in the auditor's report taking into account, for example, any costs associated with obtaining consents pursuant to the Securities Act and the potential for liability stemming from disclosure in the auditor's report. Although many auditors may prefer to avoid the potential legal and practical issues associated with disclosure in the auditor's report, some auditors may choose to also make the required disclosures in the auditor's report. Financial statement users could interpret an auditor's willingness to be personally associated with the audit in the auditor's report as a signal of audit quality or, more generally, as a means of differentiating among auditors.[108]

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currently require disclosure of the name of the engagement partner are Japan, United Kingdom, France, Germany, Australia, India, Brazil, China, Switzerland, Spain, Russian Federation, the Netherlands, South Africa, Sweden, Mexico, and Italy.

[108] Changes to the format of the auditor's report in the United Kingdom may have provided auditors with a mechanism to distinguish themselves from their peers.

Requiring disclosure in a separate PCAOB form may decrease the chances that investors and other financial statement users would seek out the information. While disclosure in the auditor's report would make information available on the date of SEC filing of the document containing the auditor's report, disclosure on Form AP could occur up to 35 days later and information would only be included in the auditor's report when the auditor also chose to disclose in the auditor's report. Regardless of where it is disclosed, investors should be able to consider the information in developing their investment strategies.[109]

Applicability to Brokers and Dealers under Exchange Act Rule 17a-5

For a discussion of the economic considerations relevant to the application of the final rules to audits of brokers and dealers, see above.

Considerations for Audits of Emerging Growth Companies

Pursuant to Section 104 of the Jumpstart Our Business Startups ("JOBS") Act, any rules adopted by the Board subsequent to April 5, 2012, do not apply to the audits of EGCs (as defined in Section 3(a)(80) of the Exchange Act) unless the SEC "determines that the application of such additional requirements is necessary or appropriate in the

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Some filings suggest that some auditors may be using the new format to showcase the rigor and quality of their audit work. See Citi Research, New UK Auditor's Reports Update (Sept. 3, 2014).

[109] There is an extensive body of academic literature demonstrating that financial markets are able to incorporate information into securities prices. Because securities prices can be viewed as public goods, investors are able to learn important information about a company by looking at the prices of its securities. See, e.g., Eugene F. Fama, Efficient Capital Markets: A Review of Theory and Empirical Work, 25 The Journal of Finance 383 (1970); Sanford Grossman, Further Results on the Informational Efficiency of Competitive Stock Markets, 18 Journal of Economic Theory 81 (1978); John C. Coffee, Jr., Market Failure and the Economic Case for a Mandatory Disclosure System, 70 Virginia Law Review 717 (1984); and Verrecchia, Essays on Disclosure.

public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation."[110] As a result of the JOBS Act, the rules and related amendments to PCAOB standards the Board is adopting are subject to a separate determination by the SEC regarding their applicability to audits of EGCs.

The 2015 Supplemental Request as well as the 2013 Release sought comment on the applicability of the proposed disclosure requirements to the audits of EGCs. Commenters generally supported requiring the same disclosures for audits of EGCs on the basis that EGCs have the same characteristics as other issuers and that the same benefits would be applicable to EGCs.

The data on EGCs outlined below in "Characteristics of Self-Identified EGCs," remains consistent with the data discussed in the 2013 Release, although the number of EGCs has nearly doubled since the issuance of that release. A majority of EGCs continue to be smaller public companies that are generally new to the SEC reporting process. Overall, there is less information available in the market about smaller and newer companies than there is about larger and more established companies. The communication of the name of the engagement partner and information about other accounting firms in the audit could assist the market in assessing some risks associated with the audit and in valuing securities, which could make capital allocation more efficient. Disclosures about audits of EGCs could produce these effects no less than disclosures about audits of other companies. Because there is generally less information available to investors about EGCs, additional disclosures about audits of EGCs may be of

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[110] See Jumpstart Our Business Startups ("JOBS") Act, Pub. L. No. 112-106 (Apr. 5, 2012). See also Section 103(a)(3)(C) of the Sarbanes-Oxley Act, (15 U.S.C. 7213(a)(3)), as added by Section 104 of the JOBS Act.

greater benefit to investors in EGCs than to investors in established issuers with a longer reporting history.

As noted below, some EGCs operate in geographic segments that are outside the country or region of the accounting firm issuing the auditor's report, which may suggest involvement of participants in the audit other than the accounting firm issuing the auditor's report. While a smaller percentage of EGCs report such sales and assets than the companies in the Russell 3000 Index, for those EGCs that do, the amounts represent a larger portion of total sales and assets. The percentage of EGCs reporting segment sales (15%) and assets (17%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is smaller as compared to companies in the Russell 3000 Index (51% and 42%, respectively). However, for these EGCs, the average percentage of reported segment sales (58%) and assets (73%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is significantly higher than the analogous average segment sales (40%) and assets (35%) reported by companies in the Russell 3000 Index. Therefore, providing the disclosures regarding other accounting firms in the audit may be as relevant, or more relevant, to investors in EGCs and other financial statement users as it would be to investors in larger and more established companies.

One commenter asserted that costs to collect data about other participants in the audit will likely be more significant and probably more burdensome for auditors of EGCs than those of other issuers. Based on the characteristics of EGCs it is unlikely that the cost of collecting data will be disproportionately high for EGCs as a group because the percentage of EGCs that operate outside the country or region of the accounting firm issuing the auditor's report appears to be relatively low compared to companies in the Russell 3000 Index. Although for those EGCs that do, the percentage of sales and assets that may be subject to audit by other participants could be greater.

The costs associated with the final rules, which are discussed above, are equally applicable to all companies, including EGCs. To the extent compliance costs do not vary with the size of the company, they may have a disproportionately greater impact on audits of smaller companies, including audits of smaller EGCs. As previously noted, however, the Board does not believe that direct costs for auditors to comply with the final rule will be significant. Such costs would not, in any case, be borne by companies, including EGCs, except to the extent they are passed on in the form of higher audit fees.

As noted above, the Board was mindful of concerns voiced by commenters about compliance and other costs. The final rule responds to those concerns by requiring disclosure on Form AP, which should not raise the same concerns about potential liability or consent requirements as disclosure in the auditor's report.

Approximately 3% of EGCs were audited by firms having only one certified public accountant whose full name is included in the firm's name (for example, sole proprietor). For those EGCs, the name of the audit engagement partner is already disclosed through the required signature of the firm on the auditor's report. No companies in the Russell 3000 Index are audited by such firms.

The Board is providing this analysis and the information set forth below to assist the SEC in its consideration of whether it is "necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation," to apply the standard and amendments to audits of EGCs. This information includes data and analysis of EGCs identified by the Board's staff from public sources.

The final rules will provide investors and other financial statement users with improved transparency about those who conduct audits, adding more specific data points to the mix of information that can be used to make decisions about audit quality and evaluate the credibility of financial reporting. The information will also allow investors and other financial statement users to evaluate the reputations of engagement partners and other accounting firms, which should have an effect on their sense of accountability.

For the reasons explained above, the Board believes that the final rules are in the public interest and, after considering the protection of investors and the promotion of efficiency, competition, and capital formation, recommends that the final rules should apply to audits of EGCs. Accordingly, the Board recommends that the Commission determine that it is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation, to apply the final rules to audits of EGCs. The Board stands ready to assist the Commission in considering any comments the Commission receives on these matters during the Commission's public comment process.

Characteristics of Self-Identified EGCs

The PCAOB has been monitoring implementation of the JOBS Act in order to understand the characteristics of EGCs[111] and inform the Board's consideration of

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[111] Pursuant to the JOBS Act, an EGC is defined in Section 3(a)(80) of the Exchange Act. In general terms, an issuer qualifies as an EGC if it has total annual gross revenue of less than $1 billion during its most recently completed fiscal year (and its first sale of common equity securities pursuant to an effective Securities Act registration statement did not occur on or before Dec. 8, 2011). See JOBS Act Section 101(a), (b),

whether it should recommend that the SEC approve the application of the final rules to audits of EGCs. To assist the SEC, the Board is providing the following information regarding EGCs that it has compiled from public sources.[112]

As of May 15, 2015, based on the PCAOB's research, there were 1,972 SEC registrants that filed audited financial statements and identified themselves as EGCs in at least one public filing. Among the 1,972 EGCs, there were 171 that did not file audited financial statements within the 18 months preceding May 15, 2015.[113] Characteristics of

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and (d). Once an issuer is an EGC, the entity retains its EGC status until the earliest of: (i) the first year after it has total annual gross revenue of $1 billion or more (as indexed for inflation every five years by the SEC); (ii) the end of the fiscal year after the fifth anniversary of its first sale of common equity securities under an effective Securities Act registration statement; (iii) the date on which the company issues more than $1 billion in nonconvertible debt during the prior three year period; or (iv) the date on which it is deemed to be a "large accelerated filer" under the Exchange Act (generally, an entity that has been public for at least one year and has an equity float of at least $700 million).

[112] To obtain data regarding EGCs, the PCAOB's Office of Research and Analysis compiled data from Audit Analytics on self-identified EGCs and excluded companies that (i) have terminated their registration, (ii) had their registration revoked, or (iii) have withdrawn their registration statement prior to effectiveness and, in each case, have not subsequently filed audited financial statements. The PCAOB has not validated these entities' self-identification as EGCs. The information presented also does not include data for entities that have filed confidential registration statements and have not subsequently made a public filing.

[113] Approximately 28% of these 171 companies are blank check companies according to the Standard Industrial Classification (“SIC”) code. This is the most common SIC code among the 171 companies; the next most common SIC code (5%) is that for metal mining (the remaining SIC codes each represent less than 5%). Approximately 84% of these 171 companies had an explanatory paragraph included in the last auditor's report filed with the SEC stating that there is substantial doubt about the company's ability to continue as a going concern. Approximately 7% of these 171 companies were audited by firms that are annually inspected by the PCAOB, 2% were audited by firms that are affiliates of annually inspected firms, 2% were audited by other foreign firms, and the remaining 89% were audited by domestic firms that are triennially inspected by the PCAOB.

the remaining 1,801 companies that filed audited financial statements in the 18 months preceding May 15, 2015 are discussed below.

These companies operate in diverse industries. The five most common SIC codes applicable to these companies are: (i) pharmaceutical preparations; (ii) blank check companies; (iii) real estate investment trusts; (iv) prepackaged software services; and (v) business services.

The five SIC codes with the highest total assets as a percentage of the total assets of the population of EGCs are codes for: (i) real estate investment trusts; (ii) state commercial banks; (iii) crude petroleum or natural gas; (iv) national commercial banks; and (v) electric services. Total assets of EGCs in these five SIC codes represent approximately 46% of the total assets of the population of EGCs. EGCs in two of these five SIC codes (state commercial banks and national commercial banks) represent financial institutions, and the total assets for these two SIC codes represent approximately 17% of the total assets of the population of EGCs.

Approximately 13% of the EGCs identified themselves in registration statements and had not reported under the Exchange Act as of May 15, 2015. Approximately 74% of EGCs began reporting under the Exchange Act in 2012 or later. The remaining 13% of these companies have been reporting under the Exchange Act since 2011 or earlier. Accordingly, a majority of the companies that have identified themselves as EGCs have been reporting information under the securities laws since 2012.

Approximately 62% of the companies that have identified themselves as EGCs and filed an Exchange Act filing with information on smaller reporting company status indicated that they were smaller reporting companies.[114]

Approximately 54% of the companies that have identified themselves as EGCs provided a management report on internal control over financial reporting.[115] Of those companies that provided a management report, approximately 50% stated in the report that the company's internal control over financial reporting was not effective.[116]

The most recent audited financial statements filed as of May 15, 2015, for those companies that identified as EGCs indicated the following:

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114 The SEC adopted its current smaller reporting company rules in Smaller Reporting Company Regulatory Relief and Simplification, Securities Act Release No. 8876 (Dec. 19, 2007). Generally, companies qualify to be smaller reporting companies and, therefore, have scaled disclosure requirements if they have less than $75 million in public equity float. Companies without a calculable public equity float will qualify if their revenues were below $50 million in the previous year. Scaled disclosure requirements generally reduce the compliance burden of smaller reporting companies compared to other issuers.

115 The management report on internal control over financial reporting is required only in annual reports, starting with the second annual report filed by the company. See Instruction 1 to Item 308(a) of Regulation S-K. EGCs that have not yet filed at least one annual report are therefore not required to provide it.

116 For purposes of comparison, the PCAOB compared the data compiled with respect to the population of companies that identified themselves as EGCs with companies listed in the Russell 3000 Index in order to compare the EGC population with the broader issuer population. The Russell 3000 Index was chosen for comparative purposes because it is intended to measure the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market (as indicated on the Russell website). To contrast, approximately 98% of the companies in the Russell 3000 Index provided a management report on internal control over financial reporting. Of those companies that provided a management report, approximately 5% stated in the report that the company's internal control over financial reporting was not effective.

- The reported assets ranged from zero to approximately $12.9 billion. The average and median reported assets were approximately $227.4 million and $3.1 million, respectively.[117]
- The reported revenue ranged from zero to approximately $926.4 million. The average and median reported revenue were approximately $53.7 million and $48 thousand, respectively.
- Approximately 43% reported zero revenue in their financial statements.
- The average and median reported assets among companies that reported revenue greater than zero were approximately $382.3 million and $71.1 million, respectively. The average and median reported revenue among these companies that reported revenue greater than zero were approximately $94.0 million and $13.5 million, respectively.
- Approximately 50% had an explanatory paragraph included in the auditor's report on their most recent audited financial statements describing that there is substantial doubt about the company's ability to continue as a going concern.[118]

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[117] For purposes of comparison, the PCAOB compared the data compiled with respect to the population of companies that identified themselves as EGCs with companies listed in the Russell 3000 Index in order to compare the EGC population with the broader issuer population. The average and median reported assets of issuers in the Russell 3000 Index were approximately $13.2 billion and approximately $1.9 billion, respectively. The average and median reported revenue from the most recent audited financial statements filed as of May 15, 2015, of issuers in the Russell 3000 were approximately $4.9 billion and $812.9 million, respectively.

[118] Less than 1% of companies in the Russell 3000 Index have an explanatory paragraph describing that there is substantial doubt about the company's ability to continue as a going concern.

- Approximately 44% were audited by firms that are annually inspected by the PCAOB (that is, firms that have issued auditor's reports for more than 100 public company audit clients in a given year) or are affiliates of annually inspected firms. Approximately 56% were audited by triennially inspected firms (that is, firms that have issued auditor's reports for 100 or fewer public company audit clients in a given year) that are not affiliates of annually inspected firms.
- Approximately 3% were audited by firms: (1) whose names contain the full name of an individual that is in a leadership role at the firm and (2) have disclosed only one certified public accountant.[119]
- Approximately 15% and 17% of the EGCs reported segment sales and assets,[120] respectively, in geographic areas outside the country or region of the accounting firm issuing the auditor's report.[121] For these EGCs, on average, 58% and 73% of the reported segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.[122]

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[119] This data is based on firms' annual disclosures on PCAOB Form 2. No companies in the Russell 3000 Index were audited by such firms.

[120] See Financial Accounting Standards Board Accounting Standards Codification, Topic 280, Segment Reporting.

[121] Approximately 51% and 41% of the population of companies in the Russell 3000 Index reported segment sales and assets, respectively, in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

[122] For the population of companies in the Russell 3000 Index that reported segment sales or assets in geographic areas outside the country or region of the accounting firm issuing the auditor's report, approximately 40% and 35% of those

III. Date of Effectiveness of the Proposed Rules and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Board consents, the Commission will:

(A) by order approve or disapprove such proposed rules; or

(B) institute proceedings to determine whether the proposed rules should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rules are consistent with the requirements of Title I of the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/pcaob.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number PCAOB-2016-01 on the subject line.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

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segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

All submissions should refer to File Number PCAOB-2016-01. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/pcaob.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rules that are filed with the Commission, and all written communications relating to the proposed rules between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing will also be available for inspection and copying at the principal office of the PCAOB. All comments received will be posted without charge; we do not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number PCAOB-2016-01 and should be submitted on or before [insert 21 days from publication in the Federal Register].

By the Commission.

Brent J. Fields

Secretary

1666 K Street, NW
Washington, D.C. 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

CONCEPT RELEASE ON REQUIRING THE ENGAGEMENT PARTNER TO SIGN THE AUDIT REPORT	PCAOB Release No. 2009-005 July 28, 2009 PCAOB Rulemaking Docket Matter No. 029

Summary: The Public Company Accounting Oversight Board ("PCAOB" or "Board") is issuing a concept release to solicit public comment on whether it should require the auditor with final responsibility for the audit to sign the audit report.

Public Comment: Interested persons may submit written comments to the Board. Such comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to comments@pcaobus.org or through the Board's Web site at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 29 in the subject or reference line. Comments should be received by the Board no later than 5:00 PM EDT on September 11, 2009.

Board Contacts: Bella Rivshin, Associate Chief Auditor (rivshinb@pcaobus.org), Jacob Lesser, Associate General Counsel (lesserj@pcaobus.org), Mary Peters, Assistant General Counsel (petersm@pcaobus.org), 202-207-9100.

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CONCEPT RELEASE

I. Introduction

A public company audit typically involves a substantial amount of work by highly skilled practitioners exercising significant professional judgment. At the end of this process, the registered public accounting firm issues its report on the client's financial statements and, when applicable, its internal control over financial reporting. The audit report is usually the only document related to the audit that investors see. Among other things, it describes, in general terms, the work required to be performed in every audit, represents that the work was performed in accordance with the standards of the PCAOB, and, most important to investors, states the auditor's opinion. PCAOB standards require the audit report to be signed by the audit firm.[1/]

Because of the audit report's importance, commentators have, at various times, considered ways to make it more informative and whether changes to the standard audit report could enhance audit quality. Beginning in 2005, the Board has sought the advice of its Standing Advisory Group ("SAG") several times on this topic, with a particular emphasis on whether PCAOB standards should require engagement partners to sign the audit report.[2/] Members of the SAG with backgrounds as investors have generally strongly supported such a requirement. These SAG members generally believe that a signature requirement could enhance the engagement partner's accountability and increase transparency. Some other SAG members have expressed concerns and noted the benefits of the existing requirement for the firm to sign the audit report.

In 2006, the European Union issued the Eighth Company Law Directive (the "Eighth Directive"), which requires member states to adopt a requirement for the

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[1/] AU sec. 508.08; Auditing Standard No. 5, para. 85. PCAOB standards do not prohibit the engagement partner from also signing the audit report. The auditing standards of the International Auditing and Assurance Standards Board ("IAASB") allow the auditor to sign the report "either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction." IAASB International Standard on Auditing 700, *Forming an Opinion and Reporting on Financial Statements*, paragraph A37.

[2/] The SAG discussed requiring the engagement partner to sign the audit report in February 2005, June 2007 and October 2008. Transcripts of the relevant portions of these meetings are available at http://www.pcaobus.org/Rules/Docket_029/index.aspx.

engagement partner to sign the audit report. The Eighth Directive "establishes rules concerning the statutory audit of annual and consolidated accounts" and "aims at high level – though not full – harmonisation of statutory audit requirements."[3/] Article 28 of the Eighth Directive provides that "[w]here an audit firm carries out the statutory audit, the audit report shall be signed at least by the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm."[4/] Moreover, even before the Eighth Directive, some countries in continental Europe already required the engagement partner to sign the audit report.[5/]

Most recently, in 2008, the Advisory Committee on the Auditing Profession ("ACAP"), convened by the U.S Department of the Treasury, considered the audit report. Chaired by former Securities and Exchange Commission ("SEC") Chairman Arthur Levitt and former SEC Chief Accountant Donald Nicolaisen, ACAP was charged with "provid[ing] informed advice and recommendations . . . on the sustainability of a strong and vibrant public company auditing profession."[6/] Chairman Mark Olson was an observer to the ACAP.[7/]

[3/] Directive 2006/43/EC of the European Parliament and of the Council (May 17, 2006); see also The Institute of Chartered Accountants in England and Wales, *Shareholder Involvement – Identifying the Audit Partner* (2005) (describing benefits of and concerns about requiring the engagement partner to sign the audit report and making recommendations regarding implementation of the forthcoming Eighth Directive requirement).

[4/] Id. at Art. 28. Article 2 of the Eighth Directive defines a "statutory auditor" as a "natural person who is approved in accordance with the provisions of the directive by the competent authorities of a member state to carry out statutory audits."

[5/] U.S. Dep't of the Treasury, Final Report of the Advisory Committee on the Auditing Profession to the U.S. Dep't of the Treasury, at VII:20 (Oct. 6, 2008) ("ACAP Report"), avail. at http://www.treas.gov/offices/domestic-finance/acap/.

[6/] Id. at B:1.

[7/] The ACAP Report lists the members and observers of ACAP at pages III:1 – III:4.

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On October 6, 2008, ACAP issued its final report, which recommends, among other things, "urg[ing] the PCAOB to undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report."[8/] The ACAP Report notes that ACAP received "testimony and commentary regarding the benefits and complexities of engagement partner signatures" and that "[t]he Committee believes that the engagement partner's signature on the auditor's report would increase transparency and accountability."[9/] The ACAP Report states that "the signature requirement should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm."[10/]

[8/] ACAP Report, at VII:19. Also regarding the audit report, the ACAP Report recommends that the PCAOB "undertake a standard-setting initiative to consider improvements to the auditor's standard reporting model" and "that the PCAOB and the SEC clarify in the auditor's report the auditor's role in detecting fraud . . . ." Id. at VII:13. The Board continues to consider these recommendations, along with ACAP's other recommendations to the Board.

[9/] See id. at VII:19, VII:20.

[10/] ACAP Report at VII:20. According to the ACAP Report, "[t]his language is similar to safe harbor language the SEC promulgated in its rulemaking pursuant to Sarbanes-Oxley's Section 407 for audit committee financial experts." Id. The reference is to Item 407(d)(5)(iv) of Regulation S-K, 17 C.F.R. § 229.407(d)(5)(iv), which provides:

> (iv) Safe harbor.
>
> (A) A person who is determined to be an audit committee financial expert will not be deemed an expert for any purpose, including without limitation for purposes of section 11 of the Securities Act, as a result of being designated or identified as an audit committee financial expert pursuant to this Item 407.
>
> (B) The designation or identification of a person as an audit committee financial expert pursuant to this Item 407 does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the audit committee and board of directors in the absence of such designation or identification.

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As described below, requiring the engagement partner to sign the audit report could improve audit quality. Accordingly, the Board is considering whether to impose such a requirement, which would be in addition to, not in place of, the existing requirement for the firm to sign the audit report. The Board seeks comment on all aspects of this concept release.

II. Reasons for a Signature Requirement

A requirement for the engagement partner to sign the audit report could improve audit quality in two ways. First, it might increase the engagement partner's sense of accountability to financial statement users, which could lead him or her to exercise greater care in performing the audit. Second, it would increase transparency about who is responsible for performing the audit, which could provide useful information to investors and, in turn, provide an additional incentive to firms to improve the quality of all of their engagement partners.

Many have suggested that an engagement partner who knows that he or she will have to sign his or her own name to an engagement report will perform a higher quality audit. As described by one commenter on a draft of the ACAP Report:

> the personal signature . . . might have the effect of focusing the attention on those named individuals on the potential future consequences of a badly done audit. Knowing that any failure will be clearly and unambiguously associated with the named individuals and that the veil of the firm will not be there to obscure their responsibility may be of value.[11/]

Put another way, a requirement for the engagement partner to sign the report may increase that individual's sense of personal accountability for the work performed and

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> (C) The designation or identification of a person as an audit committee financial expert pursuant to this Item does not affect the duties, obligations or liability of any other member of the audit committee or board of directors.

[11/] Letter from Andrew D. Bailey, Jr., to Arthur Levitt, Jr. and Don Nicolaisen, Advisory Committee on the Accounting Profession (June 16, 2008), available at http://comments.treas.gov/_files/TREASURYLETTER3BAILEY61608.doc.

the opinion expressed, which could, in turn, have a positive effect on his or her behavior.[12/]

Some have noted that the identity of the engagement partner generally is not a secret and that regulators and others may easily determine who served in that role on a given audit.[13/] While this is certainly correct, knowing that one's name is obtainable by interested parties is not the same as knowing that one's name will be associated with the work performed by every reader of the audit report. As one panelist at a SAG discussion noted, "accountability is being answerable to an audience" and "the engagement partner's signature proposal just expands the audience" to investors.[14/] In addition, the act of signing itself may increase an engagement partner's sense of responsibility for the quality of the audit.[15/]

[12/] See Jean Bedard, Comments at Panel Discussion before the SAG (Oct. 23, 2008) (noting the absence of reported studies on whether audit quality is affected by a requirement for the engagement partner to sign the report but that "when an individual is accountable, there is an increase in self-critical thinking, which is thinking harder about the decisions you must make and possible threats to the quality of your response based on your intended audience"), available at http://www.pcaobus.org/Rules/Docket_029/index.aspx.

[13/] For example, in connection with ratifying the appointment of the independent auditor, the engagement partner typically attends the annual shareholders' meeting and is available to answer shareholders' questions.

[14/] See Jean Bedard, Comments at Panel Discussion before the SAG (Oct. 23, 2008), available at http://www.pcaobus.org/Rules/Docket_029/index.aspx.

[15/] See Letter from Donald H. Chapin to The Advisory Committee on the Auditing Profession (June 9, 2008) ("In my experience . . . nothing so focuses the mind on 'getting it right' as having to sign the audit report."), available at http://comments.treas.gov/_files/TreasuryAdvisoryCommittee.doc;
Robert Tarola, Comments at Meeting of the SAG (June 21, 2007) ("I used to sign off in the name of a firm. Now I'm certifying financial statements under SOX in my personal name. I would like to believe . . . that it wouldn't have made a difference, but it does. It is psychologically different."), available at http://www.pcaobus.org/Rules/Docket_029/index.aspx;
Arnold Hanish, Comments at Meeting of the SAG (Feb. 16, 2005) ("We find behaviors within our company where we're asking people to sign their name. You get different

For these reasons, some have suggested that a requirement for the engagement partner to sign the audit report would be similar to the requirement imposed by Section 302 of the Sarbanes-Oxley Act. Under that section, an issuer's principal executive officer and principal financial officer must certify in each annual or quarterly report that, among other things, based on the officer's knowledge the report does not contain any untrue statement of a material fact and that the financial statements are fairly presented. Congress enacted this requirement because it "believe[d] that management should be held responsible for the financial representations of their companies."[16/] Some have suggested that this requirement has focused the signing officers on their existing responsibilities when preparing financial information.[17/] A requirement for the engagement partner to sign the audit report might similarly focus engagement partners on their existing responsibilities.

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behaviors when someone has to put their name on something."), available at http://www.pcaobus.org/Rules/Docket_029/index.aspx.

[16/] S. Rep. No. 107-205, at 25 (2002).

[17/] See, e.g., Cynthia A. Glassman, Commissioner, SEC, Internal Controls Over Financial Reporting – Putting Sarbanes-Oxley Section 404 in Perspective, Remarks at the Twelfth Annual CFO Summit (May 8, 2006) ("numerous CEOs and CFOs and other market constituents have told me that the Section 302 and 906 certifications have really forced management to focus on establishing, maintaining, and regularly evaluating disclosure controls, as well as internal controls, and making sure that financial and other disclosure is complete and accurate. The certifications are making a difference."), available at http://www.sec.gov/news/speech/2006/spch050806cag.htm; see also Cohen, J., Krishnamoorthy, G. and Wright, A. Corporate Governance in the Post Sarbanes-Oxley Era: Auditor Experiences, Working Paper (June 2009) (68% of auditors surveyed indicated that the certification requirement has had a positive effect on the integrity of financial reports), available at http://ssrn.com/abstract=1014029; Center for Audit Quality, Report on the Survey of Audit Committee Members (Mar. 2008) (in response to question about impact of CEO and CFO certification requirement on overall quality of public company audits, 44% of audit committee members surveyed responded "somewhat positive impact" and 37% responded "very positive impact").

CONCEPT RELEASE

Questions –

1. Would requiring the engagement partner to sign the audit report enhance audit quality and investor protection?

2. Would such a requirement improve the engagement partner's focus on his or her existing responsibilities? The Board is particularly interested in any empirical data or other research that commenters can provide.

3. Would disclosure of the engagement partner's name in the report serve the same purpose as a signature requirement, or is the act of signing itself important to promote accountability?

As noted above, a signature requirement would enhance transparency by providing investors with the name of the engagement partner— a piece of information generally not otherwise known to them. Such information could be useful to financial statement users and might lead to an improvement in audit quality. As one member of the SAG noted, "[i]f partners have to sign . . . you could start measuring expertise at the individual partner level in industries."[18/]

While we agree with those who have noted the importance of the expertise, quality control system, and skill of the firm as a whole,[19/] the skill and expertise of the engagement partner also undoubtedly contribute to audit quality.[20/] Providing financial

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[18/] Joseph Carcello, Comments at Meeting of the SAG (June 21, 2007), available at http://www.pcaobus.org/Rules/Docket_029/index.aspx. A requirement to disclose the name of the engagement partner in the audit report would, presumably, serve this purpose as well as a signature requirement.

[19/] See, e.g., Randy Fletchall, Comments at Meeting of the SAG (June 21, 2007) ("in a large firm, coordinating a large audit around the world, you can't expect that lead partner to have trained everyone on that team . . . . you really do have to allow that partner to rely on the firm's quality control system around many things like independence, training, competency"), available at http://www.pcaobus.org/Rules/Docket_029/index.aspx.

[20/] See, e.g., Nick Cyprus, Comments at Meeting of the SAG (Feb. 16, 2005) ("as good as firm policies are, and I've said this multiple times, the quality of an audit is very much dependent on the partner on a job"), available at statement users, audit committees, and others with the name of the engagement partner might help them evaluate the extent of an engagement partner's experience on a particular type of audit and, to a degree, his or her track record. Such information could be useful to investors in making investment decisions and to audit committees in making retention decisions.

Over time, the additional transparency could also provide an incentive for firms to enhance the skill and experience of their engagement partners overall. Audit committees might increasingly seek out engagement partners who are viewed as performing consistently high quality audits. The resulting competition could lead to an improvement in audit quality.

Questions –

4. Would increased transparency about the identity of the engagement partner be useful to investors, audit committees, and others?

5. Would such information allow users of audit reports to better evaluate or predict the quality of a particular audit? Could increased transparency lead to inaccurate conclusions about audit quality under some circumstances? We are particularly interested in any empirical data or other research that commenters can provide.

6. Are there potential unintended consequences of requiring the engagement partner to sign the audit report that the Board should be aware of?

7. The EU's Eighth Directive requires a natural person to sign the audit report, but provides that "[i]n exceptional circumstances, Member States may provide that this signature does not need to be disclosed to the public if such disclosure could lead to an imminent, significant threat to the personal security of any person." If the Board adopts an engagement

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http://www.pcaobus.org/Rules/Docket_029/index.aspx; Lynn Turner, Comments at Meeting of the SAG (Oct. 23, 2008) ("And while certainly you get all of the resources of the firm behind [the engagement partner], anytime anyone goes out for evaluation of an auditor, the number one thing that comes up is, who is that audit partner? . . . And you can have a good firm, but if you've got a lousy audit partner, you're probably going to have a lousy audit at the end of the day."), available at http://www.pcaobus.org/Rules/Docket_029/index.aspx.

partner signature requirement, is a similar exception necessary? If so, under what circumstances should it be available?

Some SAG members and some commenters on the ACAP Report noted significant benefits resulting from the existing requirement for the firm to sign the audit report.[21/] Some suggested that the firm's signature on an audit report is often viewed as a statement that the firm, as a whole, stands by the opinion expressed. The opinion and other statements in the report are those of the firm, collectively, rather than of the individual engagement partner who authorized the report's issuance. Some believe that such collective responsibility promotes audit quality because individual partners risk not only their own reputations by performing substandard audit work but those of their partners and employees as well. The firm's signature on the audit report may also reflect the fact that an audit often involves consultations with a firm's national office and others who may not participate more directly in the day-to-day audit work.

The Board agrees that requiring the firm's signature on the audit report serves important goals, including many of those identified by SAG members and commenters on the ACAP Report. The intent of any signature requirement would not be to suggest that the firm as a whole is not accountable for the contents of its audit report, or that the engagement partner is solely responsible for the audit. The Board understands that, as one SAG member stated, "big, complex clients demand the attention of the entire firm, and if you give too much authority to a level below the firm . . . you can get into some

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[21/] For example, in commenting on the ACAP Report, the Center for Audit Quality stated:

> The CAQ believes that signing a firm's name on an audit report carries a more serious connotation, as it associates the institution of the entire firm with the content of the report, and that signing by individual partners is inconsistent with the consultative environment that is fostered inside firms and the requirement that the firm as a whole stand behind the audit report. Each partner working on the audit report already knows that his or her career and reputation are on the line – not to mention the possibility of civil liability or regulatory enforcement – each time a report is issued.

Letter from Cynthia M. Fornelli, Executive Director, Center for Audit Quality to Advisory Committee on the Auditing Profession (June 27, 2008), available at http://comments.treas.gov/_files/CAQCommentletter62708FINAL.pdf.

trouble."[22] At the same time, the benefits resulting from requiring the firm to sign the audit report should not be diminished by an additional requirement for the engagement partner also to sign it.

The Board's intent with any signature requirement would not be to increase the liability of engagement partners. Any such requirement would not increase or otherwise affect the duties and obligations of the engagement partner under PCAOB standards in performing the audit. At the same time, the Board believes that the engagement partner should be – and is – responsible for the audit work performed and the contents of the audit report. A firm may only act through its partners and other employees. PCAOB standards refer to the engagement partner as "the auditor with final responsibility for the audit."[23] Engagement partners may be liable in PCAOB and SEC enforcement actions without regard to whether they signed the audit report.[24]

Accountants may also be held liable to private parties in both state and federal courts under a variety of different legal theories depending upon the facts of a particular case. Section 10(b) of the Securities Exchange Act of 1934 prohibits securities fraud and is a significant source of private liability. Under that provision, when the firm signs the audit report it makes the statements within it and may be held liable for them.[25] The

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[22] Robert Kueppers, Comments at Meeting of the SAG (Oct. 23, 2008), available at http://www.pcaobus.org/Rules/Docket_029/index.aspx.

[23] AU sec. 311, *Planning and Supervision*.

[24] See, e.g., Christopher E. Anderson, CPA, PCAOB Release No. 105-2008-103 (Oct. 31, 2008) (finding engagement partner liable for violations of PCAOB standards in auditing financial statements and authorizing issuance of unqualified opinion); SEC v. KPMG, 412 F. Supp. 2d 349, 376 (S.D.N.Y. 2006) (holding engagement partner who does not sign audit report may be held liable as primary violator under antifraud provisions of federal securities laws); see also Section 20(e) of the Securities Exchange Act, 15 U.S.C. § 78t(e) (providing that in an action brought by the SEC, "any person that knowingly provides substantial assistance to another person in violation of a provision of this Act, or any rule or regulation issued under this Act, shall be deemed to be in violation of such provision to the same extent as the person to whom such assistance is provided").

[25] See, e.g., In re Enron Corporation Securities, Derivative & ERISA Litigation, 235 F. Supp. 2d 549, 706 (S.D. Tex. 2002) (accounting firm made actionable

law is not settled, however, as to the private liability of those who do not directly make – but otherwise play some important role in the making of – a material misstatement.[26] In particular, some courts have held that private liability attaches only to those to whom a statement may be publicly attributed; others have not imposed such a requirement.[27] Accordingly, an engagement partner who does not sign the audit report might, at least in some judicial circuits, be able to avoid liability under Section 10(b) by successfully arguing that the statements in the report can be publicly attributed only to the firm. That argument, of course, would not be available if the engagement partner signed the audit report.

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statements when it issued its audit reports on Enron's financial statements); In re Lernout & Hauspie Securities Litigation, 230 F. Supp. 2d 152, 163 (D. Mass. 2002) (accounting firm's "drafting, signing, and publication of a 'clean' audit report on corporate filings that are rife with false and misleading information . . . is sufficient to trigger" liability under Section 10(b).)

[26] While it is clear that there is no private right of action under Section 10(b) against those who aid and abet a securities fraud, Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A., 511 U.S. 164, 191 (1994), it is not clear when someone should be treated as a "primary violator" or as an aider and abetter.

[27] Compare Wright v. Ernst & Young LLP, 152 F.3d 169, 175 (2d Cir. 1998) (holding that "the misrepresentation must be attributed to that specific actor at the time of public dissemination, that is, in advance of the investment decision," which has become known as the "bright line" test) with In re Software Toolworks Inc., 50 F.3d 615, 628 n.3 (9th Cir. 1994) (holding that an actor can be liable for a statement that the actor played a significant role in making but that is not publicly attributable to the actor, which has become known as the "substantial participation" test); see also U.S. Dep't of the Treasury, Legislative Proposal on Financial Regulatory Reform 73 (June 17, 2009) (noting that "[t]he SEC also proposes amending the federal securities laws to provide a single explicit standard for primary liability to replace various circuits' formulations of different 'tests' for primary liability"). For an overview of the federal courts' decisions on this point, see In re Mutual Funds Investment Litigation, 566 F.3d. 111, 121-28 (4th Cir. 2009).

CONCEPT RELEASE

Questions –

8. What effect, if any, would a signature requirement have on an engagement partner's potential liability in private litigation? Would it lead to an unwarranted increase in private liability? Would it affect an engagement partner's potential liability under provisions of the federal securities laws other than Section 10(b) of the Securities Exchange Act, such as Section 11 of the Securities Act of 1933? Would it affect an engagement partner's potential liability under state law?

9. Are there steps the Board could or should take to mitigate the likelihood of increasing an engagement partner's potential liability in private litigation?

10. Some commenters on the ACAP Report who expressed concern about liability suggested that a safe harbor provision accompany any signature requirement. While the Board has no authority to create a safe harbor from private liability, it could, for example, undertake to define the engagement partner's responsibilities more clearly in PCAOB standards. Would such a standard-setting project be appropriate?

III. Potential Amendments to PCAOB Standards

A signature requirement could be imposed by amending paragraph .08 of AU sec. 508, *Reports on Audited Financial Statements*, of the Board's interim standards and paragraph 85 of Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated with an Audit of Financial Statements*, each of which describes the elements of the standard audit report. These paragraphs currently require the audit report to include "the manual or printed signature of the auditor's firm." A requirement for "the manual and printed signature of the auditor with final responsibility for the audit" could be added to those paragraphs.

In general, an audit report contains an opinion on prior years' financial statements in addition to the opinion on those of the current year.[28/] For a variety of reasons, however, including partner rotation requirements, the engagement partner on

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[28/] Under PCAOB standards, the auditor "should be alert for circumstances or events that affect the prior-period financial statements presented . . . or the adequacy of informative disclosures concerning those statements" and "consider the effects of any such circumstances or events coming to his or her attention." See AU sec. 508.66.

the current year's audit may not be the person who served in that role on the audits of the prior years presented in the report. This may be the case even though the same firm audited all of the years presented. Similar issues could arise when prior period financial statements are revised due to, for example, errors or changes in accounting principles. The Board is considering whether the current year engagement partner should be required to sign an audit report only as it relates to a year for which he or she served in that role.

The Board is also considering how an engagement partner signature requirement should apply when part of the audit is performed by another auditor. Under AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, the principal auditor must decide whether to make reference to the other auditor in the audit report or to assume responsibility for the other auditor's work. If a signature requirement were adopted, it might be appropriate, for example, for a principal auditor that makes reference to the other auditor also to reference the other engagement partner. In addition, under AU sec. 543, firms generally choose not to make reference to other firms within the same network that performed part of the audit. In such cases, the firm issuing the report may feel comfortable taking responsibility for the work of the other firm because of the network affiliation. Some have suggested that an engagement partner signing the report may, however, feel less comfortable about taking responsibility for the work of other auditors he or she may not know personally. The Board is considering whether an engagement partner signature requirement would change existing practice in this area.

Questions –

11. If the Board adopts an engagement partner signature requirement, would other PCAOB standards, outside of AU sec. 508 and Auditing Standard No. 5, need to be amended?

12. Should the Board only require the engagement partner's signature as it relates to the current year's audit? If so, how should the Board do so? For example, should firms be permitted to add an explanatory paragraph in the report that states that the engagement partner's signature relates only to the current year?

13. If a signature requirement is adopted, should a principal auditor that makes reference to another auditor also be required to make reference to the other engagement partner? Would an engagement partner at the

principal auditor be less willing to assume responsibility for work performed by another firm under AU sec. 543?

14. Auditors are not required to issue a report on a review of interim financial information, though AU sec. 722, *Interim Financial Information*, imposes requirements on the form of such a report in the event one is issued. Should the engagement partner be required to sign a report on interim financial information if the firm issues one?

15. Would requiring the engagement partner to sign the audit report make other changes to the standard audit report necessary?

16. If the Board adopts a signature requirement, should it specify a form of the engagement partner's signature? For example, should the engagement partner sign on behalf of the firm and then "by" the engagement partner?

IV. Opportunity for Public Comment

The Board will seek comment for a 45-day period. Interested persons are encouraged to submit their views to the Board. Written comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to comments@pcaobus.org or through the Board's Web site at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 29 in the subject or reference line and should be received by the Board no later than 5:00 PM EDT on September 11, 2009. The Board will consider all comments received.

On the 28th day of July, in the year 2009, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ J. Gordon Seymour

J. Gordon Seymour
Secretary

July 28, 2009

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IMPROVING THE TRANSPARENCY OF AUDITS: PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS AND FORM 2	PCAOB Release No. 2011-007 October 11, 2011 PCAOB Rulemaking Docket Matter No. 29

Summary: The Public Company Accounting Oversight Board ("PCAOB" or "Board") is soliciting public comment on amendments to its standards that would improve the transparency of public company audits. The proposed amendments would: (1) require registered public accounting firms to disclose the name of the engagement partner in the audit report, (2) amend the Board's Annual Report Form to require registered firms to disclose the name of the engagement partner for each audit report already required to be reported on the form, and (3) require disclosure in the audit report of other independent public accounting firms and other persons that took part in the audit.

Public Comment: Interested persons may submit written comments to the Board. Such comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to comments@pcaobus.org or through the Board's Web site at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 29 in the subject or reference line. Comments should be received by the Board no later than 5:00 PM EDT on January 9, 2012.

Board Contacts: Jennifer Rand, Deputy Chief Auditor (202/207-9206, randj@pcaobus.org); Dima Andriyenko, Associate Chief Auditor (202/207-9130, andriyenkod@pcaobus.org); and Lisa Calandriello, Assistant Chief Auditor (202/207-9337, calandriellol@pcaobus.org).

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I. Introduction

The audit report is typically an investor's primary source of information about the audit. Usually a single page, the report provides general information about how every audit must be conducted, states that the audit complied with applicable standards, gives the firm's opinion on the company's financial statements or internal control over financial reporting, and includes the signature of the firm that issued it. While the report provides useful information—the opinion, primarily—it tells the reader little about the key participants in the audit.

For example, while an audit today may involve only the registered firm issuing the report, it is more likely, at least for the largest audits, that two or more firms play a role. In many cases, these other firms are affiliated with the firm issuing the report and share a common brand name. Other times, there is no affiliation between firms working on an audit, or the firm issuing the report may use other participants from outside the firm to perform certain audit procedures. In most cases these other firms are engaged in auditing company operations in the country in which the other firm is located. Regardless of the approach, it is the engagement partner who is at the center of the effort. He or she "is responsible for the engagement and its performance," and must, therefore, make sure that the work and those who perform it are appropriately supervised and coordinated.[1/]

Generally, however, little, if any, of this is transparent to investors. The audit report typically contains no information about who served in the role of engagement partner, or whether the firm issuing the report actually performed all of the work.[2/] In

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[1/] See paragraph 3 of Auditing Standard No. 9, *Audit Planning*, and paragraph 3 of Auditing Standard No. 10, *Supervision of the Audit Engagement*.

[2/] There are no provisions requiring the disclosure of the name of the engagement partner or the name and extent of participation in the audit of other accounting firms or persons in the standards of the PCAOB, standards of Auditing Standards Board of the American Institute of Certified Public Accountants ("AICPA") or standards of the International Auditing and Assurance Standards Board. In some countries outside the United States, there are statutory requirements regarding disclosing the name of the engagement partner in the audit report. For example, the Eighth Company Law Directive of the European Union ("EU") requires the EU member states to adopt a requirement for the audit report to be "signed by at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm." Directive 2006/43/EC of the European Parliament and of the Council, Article 28 (May 17, 2006). According to the Directive, "statutory auditor" means "a natural person who is approved

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June 2011, the Board issued a concept release seeking commenters' views on how the audit report can be made more useful to readers.[3/] That release is intended to generate a broad-based discussion on changes that could be made to the auditor's reporting model. In the meantime, however, the Board believes that certain targeted changes could be made to provide more transparency within the existing framework. Specifically, providing investors with the name of the engagement partner and the names of other persons and independent public accounting firms that took part in the audit would require only relatively modest changes to the audit report but could increase transparency by providing investors with information regarding certain key participants in the audit process.

Accordingly, the Board is soliciting comment on a series of amendments to PCAOB standards that would:

- Require the audit report to disclose the name of the engagement partner responsible for the most recent period's audit,
- Require registered firms to disclose in their PCAOB annual report on Form 2 the name of the engagement partner for each audit report already required to be reported on the form, and
- Require disclosure in the audit report about other persons and independent public accounting firms that took part in the most recent period's audit.

These proposals are each described in greater detail below. The Board seeks comment on all aspects of the proposed amendments.

II. Disclosure of the Engagement Partner

On July 28, 2009, the Board issued a concept release seeking comment on whether the Board should require that the audit report include the engagement partner's

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in accordance with this Directive by the competent authorities of a Member State to carry out statutory audits." Id. at Article 2.

[3/] See *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* available at: http://pcaobus.org/Rules/Rulemaking/Pages/Docket034.aspx.

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signature in addition to the firm's signature.[4/] The concept release grew, in part, out of the 2008 Final Report of the Advisory Committee on the Auditing Profession ("ACAP") to the U.S. Department of the Treasury.[5/] That report recommended, among other things, that the PCAOB "undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report." The ACAP report stated that "[t]he Committee believes that the engagement partner's signature on the auditor's report would increase transparency and accountability."[6/]

The Board had heard similar views from members of its Standing Advisory Group ("SAG") with backgrounds as investors or investor advocates and from its Investor Advisory Group ("IAG").[7/] Beginning in 2005, the Board had sought the advice of its SAG several times on changes that could be made to the standard audit report, with a particular emphasis on whether the report should include the engagement partner's signature. Investor members of the SAG generally supported a signature requirement, while some other SAG members expressed concerns and noted the benefits of the existing requirement for the audit report to include the firm's signature.[8/] The IAG also discussed the signature requirement at its inaugural meeting in May 2010, at which time most IAG members expressed support for such a requirement.[9/]

4/ See *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* available at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx.

5/ The ACAP was chaired by former Chairman of the Securities and Exchange Commission ("SEC") Arthur Levitt and former SEC Chief Accountant Donald Nicolaisen. Mark Olson, then Chairman of the PCAOB, was an observer.

6/ U.S. Department of the Treasury, *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury*, VII:19, VII:20 (2008).

7/ The names of SAG members and their biographies can be found on http://pcaobus.org/Standards/SAG/Pages/Current.aspx. The names of IAG members and their biographies can be found on http://pcaobus.org/About/Advisory/Pages/Investor_Advisory_Group_Members.aspx.

8/ See paragraph .08i of AU sec. 508, *Reports on Audited Financial Statements.*

9/ The SAG discussed requiring the engagement partner to sign the audit report in February 2005, June 2007 and October 2008. After the Board issued the concept release, the SAG discussed the topic again at its October 14, 2009 meeting and the IAG discussed it at its May 4, 2010 meeting. Transcripts of the relevant

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The concept release explored how a signature requirement could enhance investor protection by increasing transparency into and accountability for the preparation and issuance of audit reports, as well as the concerns expressed by some commenters on the ACAP Report and at SAG meetings.[10/] The Board also asked whether a report on a review of interim financial information, if one is issued, should include the engagement partner's signature. The Board received 23 comment letters in response.[11/]

After considering commenters' views, including those expressed at meetings of the SAG and IAG, the Board has decided to propose a rule that would require the name of the engagement partner to be disclosed, but would not require the engagement partner's signature to be included in the audit report. As discussed below, such an approach would retain most of the potential benefits discussed in the concept release while seeking to mitigate concerns that a signature requirement would minimize the firm's role in conducting the audit. The changes would be made by amending AU sec. 508, *Reports on Audited Financial Statements*, and Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, which describe the required elements of the audit report. Additionally, the Board is proposing conforming amendments to certain other PCAOB standards that include examples of the report.

The Board is also proposing to amend Part IV of Form 2 – Annual Report Form to require registered firms to disclose the name of the engagement partner for each audit report already required to be reported on the form. This would make this information available in one place that could be easily retrieved since such reports are posted on the Board's website.

Appendix A to this release contains the proposed amendments for disclosure of the engagement partner. Appendix B to this release contains the proposed amendments to Form 2. The Board seeks comment on all aspects of the proposed amendments.

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portions of these meetings are available at: http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx.

10/ The concept release noted that an engagement partner signature requirement would be in addition to, not in place of, the existing requirement for the firm to sign the audit report.

11/ The comment letters are available at: http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx.

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A. The Proposed Audit Report Disclosure

The concept release discussed two ways in which including the engagement partner's signature in the audit report might enhance investor protection. First, it stated that "a requirement for the engagement partner to sign the report may increase that individual's sense of personal accountability for the work performed and the opinion expressed, which could, in turn, have a positive effect on his or her behavior." The concept release also noted that some have suggested that the act of signing his or her own name may increase an engagement partner's sense of responsibility for the quality of the audit. The Board noted that, for these reasons, some commenters have suggested that a signature requirement would be analogous to the requirement in Section 302 of the Sarbanes-Oxley Act of 2002 for an issuer's chief executive officer ("CEO") and chief financial officer ("CFO") to make certain certifications about the company's financial statements.[12/]

Second, the concept release noted that a signature requirement "would increase transparency about who is responsible for performing the audit, which could provide useful information to investors and, in turn, provide an additional incentive to firms to improve the quality of all of their engagement partners." More specifically, the concept release suggested that providing financial statement users, audit committees, and others with the name of the engagement partner might provide them the opportunity to evaluate, to a degree, an engagement partner's experience and track record. If so, audit committees might increasingly seek out engagement partners who are viewed as performing consistently high quality audits, and the resulting competition could lead to an improvement in audit quality.

Investors and investor advocates who commented generally agreed that a signature requirement would enhance accountability and transparency and, in turn, investor protection. For example, the Council of Institutional Investors stated:

> Armed with valuable information provided by the lead auditor's signature, investors and boards will demand skilled engagement partners. The Council consequently believes that enhanced focus on the performance of the lead

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[12/] Some commenters disagreed with the analogy between signing the name of the CEO or CFO and signing the name of the engagement partner and stated that the engagement partner's and the firm's responsibility for the audit report is well-established and understood, while, on the other hand, some CEOs and CFOs had attempted to avoid their responsibility for specific aspects of the financial reporting process, and the certification under Section 302 of the Sarbanes-Oxley Act of 2002 was intended to affirm that responsibility.

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> auditor will motivate audit firms to strengthen the quality, expertise, and oversight of their engagement partners. By more explicitly tying the lead auditor's professional reputation to audit quality, requiring engagement partners to sign the audit report will further result in better supervision of the audit team and the entire audit process.[13]

Similarly, a group of accounting professors, while "acknowledg[ing] that the current research does not definitively settle the issue," stated that a signature requirement "is likely to have a number of positive effects, including a change in partner behavior that would positively influence audit quality, and an increase in transparency for audit and financial statement users."[14]

Another group of accounting professors similarly commented that "[b]ased on the existing research, it is unclear whether the signature of the engagement partner will improve audit quality," but suggested that "it seems likely that the signature requirement would enhance partner perceptions regarding personal accountability," and noted that "there is a variety of research in auditing contexts that suggests there are benefits that may result from requiring the engagement partner to sign the audit report." At the same

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[13] Letter from Jonathan D. Urick, Analyst, Council of Institutional Investors, to J. Gordon Seymour, Secretary, PCAOB (September 4, 2009).

[14] Letter from Audrey Gramling, Past President, Auditing Section of the American Accounting Assoc., Kennesaw St. University, Joseph Carcello, Ernst & Young Professor and Director of Research – Corporate Governance Center, University of Tenn., Todd DeZoort, Professor of Accounting and Accounting Advisory Board Fellow, University of Ala., and Dana Hermanson, Dinos Eminent Scholar Chair and Professor of Accounting, Kennesaw St. University, to J. Gordon Seymour, Secretary, PCAOB (August 14, 2009); *see also* Email from Stephen Zeff, Herbert S. Autrey Professor of Accounting, Rice University, to PCAOB (July 29, 2009), *attaching* Letter from Stephen Zeff to Advisory Committee on the Auditing Profession (June 25, 2008) (stating that "[t]he association of the engagement partner by name with the audit report should serve to lift his or her standard of professionalism" and that "[t]here is no justification for the anonymity that shrouds the identity of the engagement partner in the United States"). *But see* Allen Blay, Matthew Notbohm, Caren Schelleman, and Adrian Valencia, Audit Quality Effects of an Individual Engagement Partner Signature Mandate 29-30, available at: http://aaahq.org/AM2011/display.cfm?Filename=SubID_2403.pdf&MIMEType=application%2Fpdf (July 22, 2011) (reporting that the authors were "unable to document any relation between mandatory engagement partner-level signatures and audit quality in the Netherlands").

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time, they cautioned that the signature requirement could have a negative effect if it diminishes firm accountability, and that incorrect inferences could be drawn about the quality of audits associated with an individual partner because of "other factors that impact audit and financial reporting quality" and the "small number of audits associated with individual partners."[15/]

Other commenters, generally accounting firms and associations, did not believe that a signature requirement would enhance accountability or provide meaningful information to investors. Some suggested that engagement partners already feel accountable for the statements in the audit report due to existing factors such as the partners' sense of professionalism and strong interest in maintaining his or her own reputation as well as that of the firm, and the possibility of enforcement action by the Board or the Securities and Exchange Commission ("SEC"). These commenters generally believed that a signature requirement would not make engagement partners feel more accountable than they already do.

With respect to transparency, some auditors suggested that the identity of the engagement partner would not be useful to investors. Some believed that a company's audit committee is in a better position to evaluate information about the qualifications of an engagement partner and sufficiently represents investors' interests, making widespread disclosure of the engagement partner's identity unnecessary. Others expressed concern that databases would be developed that attempt to create a "box score" of partners' skills and qualifications, or to rank them by, for example, number of restatements.[16/] These commenters expressed concern that such efforts would result in investors receiving incomplete and misleading information or drawing inappropriate inferences about the audit based solely on the identity of the engagement partner.

Auditors also suggested that a signature requirement could minimize the role of a firm's quality control system in promoting audit quality. In the concept release, the Board said that it "agree[s] with those who have noted the importance of the expertise, quality control system, and skill of the firm as a whole," but "the skill and expertise of the engagement partner also undoubtedly contribute to audit quality." Some commenters continued to express concern that a signature requirement might be misunderstood by

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[15/] Email from Auditing Standards Committee, Auditing Section – American Accounting Associations to Office of the Secretary, PCAOB (September 9, 2009).

[16/] While overall restatement levels may be a general indicator of audit effectiveness, the fact of a restatement alone, without additional context, may not be a sufficient basis to make predictions about a particular engagement partner's performance.

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readers of the audit report to reflect significant changes in audit procedures, or a shift in responsibility for the audit from the firm to the engagement partner. Some commenters suggested that unintended consequences of a signature requirement might include engagement partners practicing "defensive auditing," firms shedding their riskier clients, and talented individuals leaving, or refusing to enter, the profession, all of which, according to some commenters, could increase audit costs.

While the Board agrees with commenters that engagement partners already have reasons to feel accountable for their work,[17/] the Board is considering whether a partner who is publicly identified with an engagement report may feel even more accountable for the quality of the work that went into it. The Board's inspections show that there is still significant room for improvement in compliance with PCAOB standards, including those that require auditors to perform the audit with due care and professional skepticism. Disclosing the name of the engagement partner may be one means of promoting better performance.

The Board is, by this proposal, considering whether additional transparency about the identity of the person responsible for the engagement could provide investors with useful information and could further incentivize firms to assign more experienced and capable engagement partners to engagements. Once in effect for at least five years, the additional transparency could also allow investors to consider whether the engagement partner was replaced sooner than is required under the partner rotation requirements in the Act and SEC rules.[18/] Could that additional transparency, in turn, promote auditor independence by discouraging audit clients from inappropriately pressuring the firm to remove an engagement partner? The Board will consider commenters' views on these issues.

At the same time, the Board remains sensitive to concerns about minimizing the role of the firm or suggesting that the engagement partner is solely responsible for the audit engagement and its performance.[19/] Many commenters noted the important role

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[17/] Under PCAOB standards, the engagement partner is responsible for the engagement and its performance. See paragraph 3 of Auditing Standard No. 9, and paragraph 3 of Auditing Standard No. 10. Engagement partners also, as noted in the concept release, may be held liable in PCAOB and SEC enforcement actions without regard to whether they signed the audit report.

[18/] See Section 203 of the Act; Rule 2-01(c)(6) of Regulation S-X, 17 C.F.R. § 210.2-01(c)(6).

[19/] The engagement partner is not expected to fulfill his or her responsibilities alone. Rather, "[th]e engagement partner may seek assistance from appropriate

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that other professionals, including other members of the engagement team and national office partners, and the firm's quality control system play in performing a quality audit. Accordingly, the Board is proposing an approach that involves only one signature – i.e., that of the firm issuing the report – and that the Board therefore believes will better reflect the roles of both the firm as a whole and the engagement partner.[20/]

After considering comments on the concept release, the amendments the Board is proposing would require the audit report to disclose the engagement partner responsible for the most recent period's audit.[21/] The name of the engagement partner would be disclosed and the only signature included in the audit report would be the signature of the firm issuing the report. Inclusion of the partner's name would not increase or otherwise affect the duties and obligations of the engagement partner under PCAOB standards in performing the audit.

The proposed approach has most of the same potential benefits as a signature requirement. Disclosure should serve the same transparency purpose as a signature because the name of the partner would become known to readers of the report through either approach. Furthermore, to the extent that association of the partner's name with the report could increase his or her sense of personal accountability, disclosure would serve that purpose as effectively as would a signature requirement.

In the concept release, the Board asked whether disclosure of the engagement partner's name would serve the same purpose as a signature requirement or whether the act of signing itself is important to promote accountability. Relatively few commenters responded to this question. Of those who did, some said that there should

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engagement team members," see paragraph 4 of Auditing Standard No. 10. The proposed amendments would not affect this basic principle.

20/ Because under the Board's proposal the partner would not sign his or her name on the audit report, the Board's proposal could also mitigate concerns expressed by some commenters that a signature requirement would encourage unnecessarily cautious auditing or discourage talented individuals from entering or remaining in the profession.

21/ Few commenters responded to the question about whether the interim review report should include the engagement partner's signature. Of those who responded, commenters who opposed the signature requirement for the audit report were generally against requiring the signature for the interim review report. Some commenters believed that if a signature is required for the audit report, it should also be required for the interim review report. The Board is proposing to require the disclosure only in the audit report.

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be no difference between signing and disclosure, some said neither would improve accountability, and some said that a signature requirement would better enhance accountability. While the Board believes that disclosure strikes the appropriate balance between enhancing the engagement partner's individual accountability and preserving the firm's responsibility for the audit, the Board is particularly interested in receiving comment on this issue.

Questions:

1. Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?

2. Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?

3. Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?

The concept release noted that an audit report typically contains an opinion on financial statements for more than one year and that the engagement partner on the most recent period's audit may not be the person who served in that role on the audits of the prior years presented in the report. The Board sought comment on whether it should only require the engagement partner's signature as it relates to the most recent period's audit. Of the few commenters who responded to that question, most noted practical issues that would need to be resolved if the engagement partner's signature was intended to reflect responsibility for anything beyond the current period. At the same time, some believed that a paragraph explaining that the signature only relates to the current period would make the report confusing or unnecessarily complicated.

After considering these comments, the Board is proposing to require disclosure of the engagement partner for the most recent period's audit only.[22/] The disclosure would be accomplished by adding a sentence to the audit report stating:

[22/] For example, when comparative financial statements are presented as of 12/31/20X3 and 12/31/20X2 and for the three years ended 12/31/20X3, the proposed amendments would require disclosing in the audit report on these financial statements the name of the engagement partner (Partner A) responsible for the audit for the year ended 12/31/20X3. If, in the prior year, another engagement partner (Partner B) was responsible for the audit for the year ended 12/31/20X2, the proposed amendments

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> The engagement partner responsible for the audit for the [period] ended [date] was [name].

This statement should succinctly reflect the scope of the engagement partner's responsibility in the most recent period.[23/] In cases in which the financial statements for all periods presented were audited during one audit engagement (e.g., in an initial public offering, single-period audit, or re-audit), i.e., when the engagement partner was the same for all of the periods presented, the disclosure would not include reference to financial reporting periods, as follows:

> The engagement partner responsible for the audit resulting in this report was [name].

There may be situations in which an audit report is dual-dated. In such situations, if the firm has changed the engagement partner since the original date of the report, the disclosure would be accomplished by adding the following sentences to the audit report:

> The engagement partner responsible for the audit for the [period] ended [date] was [name], except for Note X, for which the engagement partner was [name].

Questions:

4. Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?

5. Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?

The concept release also noted that the European Union's Eighth Directive requires a natural person to sign the audit report but allows for an exception "if such

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would not require disclosing the name of Partner B in the audit report on the financial statements as of 12/31/20X3 and 12/31/20X2 and for the three years ended 12/31/20X3.

[23/] See Letter from Jo Ann Guattery, Chair, Accounting Principles and Auditing Standards Committee, California Society of Certified Public Accountants, to Secretary, PCAOB (September 9, 2009) (opposing signature or disclosure requirement but stating that "[t]he easiest way to do this is to name the engagement partner for the current year audit, and not require an actual signature").

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disclosure could lead to an imminent and significant threat to the personal security of any person."[24/] The concept release solicited comment on whether a similar exception should be provided if the Board adopted a signature requirement. Some commenters, generally accounting firms and associations, argued that such an exception would be necessary and two cited incidents that they believed supported that position.[25/] Some commenters believed that an exception would be difficult to craft or would be ineffective because, for example, "[i]t is difficult to imagine all circumstances where there could be a threat to the personal security of the engagement partner, particularly if events causing the threat arise after he or she has already been named."[26/]

The Board continues to consider this issue, but, after considering the comments it already received, is not including an exception to the proposed disclosure requirement. The names of others involved in the financial reporting process are routinely publicly disclosed.[27/] The Board is not aware that these disclosures have posed significant safety concerns, or that auditors are subject to any greater risk than others who may be publicly associated with their jobs. The Board takes concerns about personal security seriously, however, and accordingly, is seeking additional comment on this issue.

24/ Directive 2006/43/EC of the European Parliament and of the Council (May 17, 2006).

25/ One commenter noted "[a] recent example in the U.K. . . . where animal rights activists carried out an aggressive campaign against [a] company and its advisors, including partners and employees of the company's audit firm." See Letter from Katharine E. Bagshaw, Manager, Auditing Standards, Institute of Chartered Accountants in England and Wales, to Office of the Secretary, PCAOB (September 11, 2009). Another referred to the "Rubicon and Young advertising executive who was killed outside his New Jersey home a few years ago." Letter from Paul Rohan, UHY LLP, to J. Gordon Seymour, Office of the Secretary, PCAOB (September 11, 2009).

26/ See Letter from Jo Ann Guattery, Chair, Accounting Principles and Auditing Standards Committee, California Society of Certified Public Accountants, to Secretary, PCAOB (September 9, 2009).

27/ For example, the names of a company's directors, as well as its CEO and CFO, are contained in its periodic reports. Some commenters also expressed concern that if the partner's name were disclosed, investors might contact him or her seeking information about the company or audit that the partner could not or would not provide. To the extent it happens, the partner could simply decline to comment.

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Question:

6. Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?

The Board also sought comment on the liability implications of requiring the engagement partner to sign the audit report. In doing so, the Board stated that its intent with any signature requirement was to increase accountability and to provide for increased transparency in the audit report and not to increase the liability of engagement partners.[28/] In July 2009, when the concept release was issued, the case law with respect to liability in private civil actions brought pursuant to Section 10(b) and Rule 10b-5(b) of the Securities Exchange Act of 1934 varied according to federal judicial circuit. The concept release noted that, under the state of the law at the time, signing the audit report would make it harder, at least in some federal judicial circuits, for an engagement partner to argue that he or she should not be held liable to private parties for fraudulent statements or omissions in the audit report.[29/] The concept release sought comment on (1) what effect, if any, a signature requirement would have on an engagement partner's potential liability in private litigation; (2) whether the signature requirement would lead to an unwarranted increase in private liability; and (3) whether it would affect an engagement partner's potential liability under other provisions of the federal securities laws or under state law.

[28/] In making its recommendation that the PCAOB undertake a standard-setting initiative to consider requiring the engagement partner to sign the audit report, ACAP stated that "the signature requirement should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm." ACAP Report at VII:20. According to the ACAP Report, "[t]his language is similar to safe harbor language the SEC promulgated in its rulemaking pursuant to Sarbanes-Oxley's Section 407 for audit committee financial experts." Id. at n.87 (referencing Item 407(d)(5)(iv) of Regulation S-K, 17 C.F.R. § 229.407(d)(5)(iv)). Some have understood ACAP’s statement to mean that such a requirement would not, given the state of the law at the time, have had an effect on the liability of engagement partners. Others, however, noting ACAP’s reference to the audit committee expert safe harbor, have understood it as a recommendation that the PCAOB coordinate with the SEC to ensure that appropriate rulemaking occurs to provide a similar safe harbor for engagement partners.

[29/] As noted in the concept release, engagement partners can be liable in PCAOB and SEC enforcement actions without regard to whether they signed the audit report.

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In response, auditors reiterated what had been noted in the concept release with respect to the state of the Section 10(b) private action case law and argued that the Board should not impose a signature requirement because it would increase engagement partners' liability under Section 10(b). Auditors also expressed concern that the signature requirement would increase liability for engagement partners in actions brought pursuant to Section 11 of the Securities Act of 1933[30/] and possibly under other federal and state securities laws.

Auditors distinguished the litigation environment that exists in the United States from that in European Union ("EU") member states, where the Eighth Directive requires the member states to adopt an engagement partner signature requirement. For example, they noted that United Kingdom law does not allow shareholder class action lawsuits against auditors based on a decline in a company's share price and that the European Commission has called for the EU member states to adopt one of three approaches to limit auditor liability – through contracts with clients, liability caps, or proportionate liability.

Auditors also stated that a signature requirement might increase litigation against engagement partners because they would become more visible to the public. According to these commenters, an increase in litigation, regardless of its merits, would, in turn, increase legal fees and insurance costs for firms and individuals. Auditors also suggested that an increased risk of litigation could impact an engagement partner's behavior, such as by reducing his or her willingness to utilize professional judgment or participate in audits of higher risk companies. One accounting firm also suggested that increased litigation against engagement partners could serve as a disincentive for college graduates to enter the public accounting profession.

In June 2011, the United States Supreme Court issued its decision in Janus Capital Group, Inc. v. First Derivative Traders, 131 S.Ct. 2296 (2011), a Section 10(b) private action involving two separate legal entities – a mutual fund and an investment advisor. In Janus, the Court addressed what it means to "make any untrue statement of a material fact" under Section 10(b) and Rule 10b-5(b). The Court held that, "[f]or

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[30/] Section 11 imposes liability for material misstatements or omissions in a registration statement on "every accountant . . . who has with his consent been named as having prepared or certified any part of the registration statement, or as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement . . . which purports to have been prepared or certified by him." Section 7 of the Securities Act requires issuers to file the consent of any accountant who is named as having prepared or certified any part of the registration statement or any valuation or report included in the registration statement.

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purposes of Rule 10b-5, the maker of a statement is the person or entity with ultimate authority over the statement, including its content and whether and how to communicate it."[31/] The Court added that "in the ordinary case, attribution within a statement or implicit from surrounding circumstances is strong evidence that a statement was made by – and only by – the party to whom it is attributed."[32/]

Few lower courts have yet had occasion to apply the Court's ruling in Janus and its ultimate implications will not be known for some time. The Board is proposing disclosure of the engagement partner's name and not a signature requirement and specifically invites comment on the implications of that approach for private liability under Section 10(b).

Commenters also expressed concern that a signature requirement would create potential liability for engagement partners under Section 11 of the Securities Act of 1933. Specifically, commenters were concerned that, if the engagement partner were required to sign the audit report, the engagement partner might be deemed to have prepared and/or certified the audit report, and as a result, the issuer would be required to file not only the consent of the accounting firm that prepared the audit report but also a separate consent of the engagement partner who signed it, which would subject the partner, along with the accounting firm, to potential Section 11 liability.

Questions:

7. Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?

8. What are the implications of the proposed disclosure rule for private liability under Section 10(b)?

9. Would the disclosure of the engagement partner's identity affect Section 11 liability? If so, what should the Board's approach be?

10. Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider?

11. Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?

31/ Janus, 131 S.Ct. at 2302.

32/ Id.

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B. The Proposed Amendment to Form 2

Pursuant to Rule 2201, each registered firm must file an annual report on Form 2 by June 30 of each year. The report provides basic information about the firm and the firm's issuer-related practice over the most recent 12-month period. Towards that end, Item 4.1 of Form 2 requires the firm to provide, for any audit reports issued during the reporting period, the issuer's name, the issuer's CIK number (if it has one), and the date of the audit report. The Board is proposing to add to Item 4.1 a requirement for firms to disclose the name of the engagement partner.[33/] All of the instructions for completing the form, as well as the other required disclosures, would remain the same.

As discussed above, disclosure of the name of the partner responsible for the audit might increase the partner's sense of accountability and might provide useful transparency. While disclosure in the audit report itself would serve those purposes, it would not provide investors with a convenient mechanism to retrieve information about a firm's engagement partners for all of its audits. The proposed amendment to Form 2 would compile this information in one place that could be easily accessed. Because the relevant information is readily available to firms, the proposed disclosure requirement should not add in any significant way to the time or cost involved in completing Form 2.

Questions:

12. If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

13. If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

14. Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?

[33/] In cases in which an audit report is dual-dated and the engagement partner is changed after the original date of the report, the rule would require disclosure of the names of both engagement partners.

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15. A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?

III. Disclosure of Other Participants in the Audit and Referred-to Accounting Firms

In many public company audits, the accounting firm issuing the audit report ("auditor" for purposes of Section III of this release) does not perform 100 percent of the audit procedures. This may be especially common in, but not limited to, audits of companies with operations in more than one country. In these situations, audit procedures on, or audits of the company's foreign operations are performed by other accounting firms or other participants in the audit not employed by the auditor.

Additionally, some accounting firms have begun a practice, known as off-shoring, whereby certain portions of the audit are performed by offices in a country different than the country where the firm is headquartered. For example, an accounting firm could establish an office in a country with a relatively low cost of labor and employ local personnel to perform certain audit procedures on audits of companies located in the country of the accounting firm's headquarters or in a third country.

The Board is proposing amendments that would require the auditor to disclose in the audit report other independent public accounting firms and other persons[34/] not employed by the auditor that took part in the most recent period's audit. The proposed amendments would require disclosure when the auditor (a) assumes responsibility for or supervises the work of another independent public accounting firm or supervises the work of a person that performed audit procedures on the audit; and (b) divides responsibility with another independent public accounting firm. Specifically:

- *Disclosure when assuming responsibility or supervising* – The auditor would be required to disclose the *name*, *location,* and *extent of participation in the audit* of (i) independent public accounting firms for whose audit the auditor assumed responsibility pursuant to AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, and (ii) independent public accounting firms or other persons not employed by the auditor that performed audit procedures on the most recent period's audit and whose work the auditor was required to

34/ As defined by PCAOB Rule 1001(p)(iv), the term "person" means any natural person or any business, legal or governmental entity or association.

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supervise pursuant to Auditing Standard No. 10, *Supervision of the Audit Engagement* (collectively, "other participants in the audit" for purposes of Section III of this release),[35] and

- *Disclosure when dividing responsibility* – The auditor would be required to disclose the *name* and *location* of another independent public accounting firm that audited the financial statements of one or more subsidiaries, divisions, branches, components, or investments included in the financial statements of the company, to which the auditor makes reference in the audit report on the consolidated financial statements and, when applicable, internal control over financial reporting ("referred-to accounting firms" for purposes of Section III of this release).[36]

The proposed amendments would affect AU sec. 508, AU sec. 543, and Auditing Standard No. 5. The proposal would require disclosure of all other participants in the audit and referred-to accounting firms regardless of their network affiliation[37] or registration status with the PCAOB.[38]

The Board is proposing these amendments to provide investors and other users of the audit report with greater transparency into the other participants in the audit.

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[35] The auditor's responsibilities with respect to the work of other persons not employed by the auditor are governed by Auditing Standard No. 10. The auditor's responsibilities with respect to the work of other independent public accounting firms are governed by AU sec. 543, when that standard applies, or Auditing Standard No. 10 in all other situations.

[36] See paragraphs .03 and .06 through .09 of AU sec. 543. Paragraph .07 of AU sec. 543 states that "[w]hen the principal auditor decides that he will make reference to the audit of another auditor, his report should indicate clearly, in both the introductory, scope and opinion paragraphs, the division of responsibility as between that portion of the financial statements covered by his own audit and that covered by the audit of the other auditor."

[37] Many affiliated accounting firms share a common name but are separate legal entities.

[38] According to PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms*, public accounting firms that must be registered with the Board are those that (a) prepare or issue any audit report with respect to any issuer; or (b) play a substantial role in the preparation or furnishing of an audit report with respect to any issuer.

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While investors can currently evaluate publicly available information about the auditor, they generally do not know the identities of other participants in the audit. The proposed disclosure would provide investors and other users of the audit report with the ability to evaluate other participants in the audit in the same manner that they evaluate the auditor. For example, the proposed disclosure would enable investors and other users of the audit report to determine whether a disclosed independent public accounting firm is registered with the Board and has been subject to PCAOB inspection,[39/] and whether a disclosed independent public accounting firm or another person has had any publicly available disciplinary history with the Board or other regulators.

Additionally, the proposed amendments would increase the transparency of financial reporting with respect to the referred-to accounting firms. While the audit report prepared by a referred-to firm on a portion of company's operations is required to be filed with the SEC,[40/] the firm's name and location typically are not disclosed in the audit

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[39/] In December 2008, the Board solicited comment on the potential advantages and disadvantages of requiring certain disclosures in the audit report about whether the principal auditor, or any registered firm whose work the principal auditor used, failed to provide information to the PCAOB in respect to an inspection demand on the basis of non-U.S. legal restrictions or sovereignty concerns. See http://pcaobus.org/Rules/Rulemaking/Pages/Docket027.aspx. Since 2008, obstacles to conducting PCAOB inspections have been removed in some jurisdictions and progress is being made toward that end in other countries. Nonetheless, the PCAOB remains unable to inspect registered firms in China and some parts of Europe. The Board continues to consider whether requiring disclosures like those described in the 2008 release would advance the public interest. The Board also continues to consider whether additional steps should be taken to protect investors in U.S. public companies that are audited by registered firms located in jurisdictions that do not allow the Board to conduct inspections. In the meantime, the Board publishes on its Web site a list that names every registered firm that has triggered an inspection requirement and notes whether the firm has ever been inspected. See http://pcaobus.org/Inspections/Pages/InspectedFirms.aspx. In addition, the Board has published on its Web site a listing of issuer audit clients of non-U.S. registered firms in jurisdictions where the PCAOB had been denied access to conduct inspections. See http://pcaobus.org/International/Inspections/Pages/IssuerClientsWithoutAccess.aspx.

[40/] Pursuant to Rule 2-05 of Regulation S-X, "[i]f, with respect to the examination of the financial statements, part of the examination is made by an independent accountant other than the principal accountant and the principal accountant elects to place reliance on the work of the other accountant and makes reference to that effect in his report, the separate report of the other accountant shall be filed. However, notwithstanding the provisions of this section, reports of other

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report on the consolidated financial statements and, if applicable, internal control over financial reporting. Such firms are typically described by the auditor in the audit report as "other auditors."[41/]

Investors have requested greater transparency about who is performing the audit and how much of the audit they have performed. In a March 2010 survey conducted by the Chartered Financial Analysts Institute ("CFA"), "91 percent [of respondents] agree that in cases where there is more than one auditor, the identities and specific roles of other auditors should be disclosed."[42/] Some respondents also thought that "[i]f reliance by one audit team is being placed upon the work conducted by another, we definitely need disclosure of these roles."[43/]

Separately, a task force of the IAG discussed the auditor's reporting model in March 2011.[44/] The task force conducted a survey of investors in investment banks, mutual funds, pension funds, and hedge funds representing over $8 trillion under management. The survey solicited views regarding various changes to the audit report. Of the investors surveyed who responded to the question regarding disclosure of work performed by other audit firms, 70 percent said they would like to know the level of involvement of the firms that are not signing the audit report.[45/]

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accountants which may otherwise be required in filings need not be presented in annual reports to security holders furnished pursuant to the proxy and information statement rules under the Securities Exchange Act of 1934."

41/ Paragraph .07 of AU sec. 543.

42/ CFA Institute, *Independent Auditor's Report Survey Results* (March 2010), available at: http://www.cfainstitute.org/Survey/independent_auditors_report_survey_results.pdf.

43/ Id.

44/ Presentation of the Working Group on Auditor's Report and The Role of the Auditor, IAG meeting (March 16, 2011), available at: http://pcaobus.org/News/Events/Pages/03162011_IAGMeeting.aspx.

45/ Id. The response rate for the question regarding disclosing the work performed by other audit firms was approximately 67 percent. Of those who responded, approximately 70 percent (or 47 percent of the total surveyed) would like to know the level of involvement from firms that are not signing the audit report, and approximately 30 percent (or 20 percent of the total surveyed) disagreed with requiring this disclosure.

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Furthermore, the SAG has discussed matters related to providing greater transparency about the audit.[46/] Many SAG members suggested that greater transparency about who performed portions of the audit, including the names of affiliate firms was warranted, since the quality of the services provided by other accounting firms may vary. Some SAG members also suggested that—in situations in which the auditor does not make reference to the audit of another independent public accounting firm—it should be clear that the auditor has assumed responsibility for the work of the other firm. Other SAG members, however, expressed concerns that disclosing the names of the other independent public accounting firms in such situations might give the impression that the responsibility of the auditor was being changed. The Board considered these comments in drafting these proposed amendments.

Sections III.A and III.B of this release contain an overview of the proposed amendments. Appendix C to this release contains the proposed amendments for disclosure of other participants in the audit. The Board seeks comment on all aspects of the proposed amendments and is particularly interested in responses to the specific questions in the following sections.

A. Disclosure When Assuming Responsibility or Supervising

1. Applicability of the Proposed Disclosure

The proposed amendments regarding the disclosure of other participants in the audit for whose audit the auditor takes responsibility or whose audit procedures the auditor supervises would apply to:

(a) Independent public accounting firms for whose audit the auditor assumed responsibility pursuant to AU sec. 543,[47/] and

(b) Independent public accounting firms or other persons not employed by the auditor that performed audit procedures on the most recent period's audit and whose work the auditor was required to supervise pursuant to Auditing Standard No. 10.

The proposed amendments would not require disclosure of:

[46/] The topic was discussed at SAG meetings in February 2005, April 2010, July 2010, and March 2011. Event details and archived webcast for SAG meetings are available at: http://pcaobus.org/Standards/SAG/Pages/SAGMeetingArchive.aspx.

[47/] Paragraphs .03 through.05 of AU sec. 543.

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- Individuals performing the engagement quality review ("EQR");[48] or
- Persons performing a review pursuant to Appendix K ("Appendix K review");[49] or
- Persons with specialized skill or knowledge in a particular field other than accounting or auditing;[50] or
- Persons employed or engaged by the company who provided direct assistance to the auditor, including:
    - Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting;[51] or,
    - Internal auditors who provided direct assistance in the audit of the financial statements.[52]

The Board does not propose disclosing individuals performing the EQR because the EQR is intended to be an objective second look at work performed by the engagement team, and the reviewers' work is not supervised by the auditor in accordance with Auditing Standard No. 10. According to PCAOB standards, "[t]o maintain objectivity, the engagement quality reviewer . . . should not make decisions on behalf of the engagement team or assume any responsibilities of the engagement team."[53] Unlike the engagement team, the engagement quality reviewer and those

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[48] See Auditing Standard No. 7, *Engagement Quality Review.*

[49] See SECPS Section 1000.45 Appendix K, *SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants.* The Board adopted the requirements of the Securities and Exchange Commission Practice Section ("SECPS") of the AICPA as part of its interim standards.

[50] AU sec. 336, *Using the Work of a Specialist*.

[51] See paragraph 17 of Auditing Standard No. 5.

[52] See paragraph .27 of AU sec. 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.

[53] Paragraph 7 of Auditing Standard No. 7.

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assisting the reviewer do not perform substantive procedures or obtain sufficient evidence to support an opinion on the financial statements or internal control over financial reporting. EQRs could be performed by individuals from the same accounting firm issuing the audit report or individuals outside of the accounting firm issuing the audit report. Similarly, the Board does not propose disclosing persons performing the Appendix K review because the auditor does not supervise or assume responsibility for the Appendix K review.

The Board does not propose disclosing persons with specialized skill or knowledge in a particular field other than accounting or auditing because AU sec. 336, *Using the Work of a Specialist*, (rather than Auditing Standard No. 10) applies to situations in which the auditor engages a specialist in an area other than accounting or auditing and uses the work of that specialist as audit evidence.

The Board does not propose disclosing persons employed or engaged by the company who provided direct assistance to the auditor because determining the extent of their participation in the audit may be impractical. Such persons also may perform other tasks for the company not related to providing direct assistance to the auditor or may not track time spent on providing the direct assistance.

With respect to "off-shoring" arrangements, (as defined on page 18 of this release), the proposed amendments would not result in disclosure of such arrangements to the extent that the off-shored work is performed by another office of the same accounting firm (even though that office may be located in a country different from the country where the firm is headquartered). The Board is interested in comments regarding whether any disclosure of off-shoring arrangements should be required and whether there are any other types of arrangements to perform audit procedures that should be disclosed.

Questions:

16. Is it sufficiently clear who the disclosure would apply to? If not, how could this be made clear?

17. Is it appropriate not to require disclosure of the individual who performed the EQR? If not, should disclosure of the engagement quality reviewer be required when the EQR is performed by an individual outside the accounting firm issuing the audit report or should the disclosure be required in all cases?

18. Is it appropriate not to require disclosure of the person that performed the Appendix K review?

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19. Is it appropriate not to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor?

20. Would disclosure of off-shoring arrangements (as defined in the release) or any other types of arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangements should be disclosed?

2. Details of the Disclosure Requirements

The proposed amendments would require the auditor to disclose in an explanatory paragraph to the audit report:

- The names of other participants in the audit (including the financial statement audit and, when applicable, the audit of internal control over financial reporting, and reviews pursuant to AU sec. 722, *Interim Financial Information*);
- The location of other participants in the audit (the country of headquarters' office location for a firm and the country of residence or headquarters' office location for another person); and
- The percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit in relation to the total hours in the most recent period's audit, excluding the hours attributable to the performance of the EQR and Appendix K review ("the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review").[54/]

The explanatory paragraph would be presented in the audit report after the opinion on the financial statements and, when applicable, the opinion on the effectiveness of internal control over financial reporting[55/] and any other explanatory paragraphs. The proposed amendments would allow the auditor to include in the

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54/ The total hours in the most recent period's audit are comprised of hours attributable to the financial statement audit and, when applicable, the audit of internal control over financial reporting, and reviews pursuant to AU sec. 722, *Interim Financial Information*.

55/ Paragraphs 86 through 88 of Auditing Standard No. 5.

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explanatory paragraph a reference to an appendix to the audit report, immediately following the report, that would include the required disclosure information about the other firms and persons. Some auditors may prefer this alternative in audits where there is more than one other participant in the audit. If the auditor issues separate reports on the financial statement audit and the audit of the effectiveness of internal control over financial reporting, the explanatory paragraph in each separate report would include reference to the same appendix.

The proposed amendments would require the disclosure of the name of the independent public accounting firms and the country of their headquarters' office location and the name of persons not employed by the auditor along with their country of residence or headquarters' office location. For purposes of this disclosure, the name of any independent public accounting firm or person with whom the auditor has the contractual relationship should be disclosed. For example, if the auditor contracted with an entity specializing in tax preparation services to perform audit procedures on the income tax provision, the auditor would disclose the name of the entity, instead of the names of the individuals from the entity, who performed the audit procedures. However, if the auditor contracted directly with an individual employed by the entity, the auditor would disclose the name of the individual who performed the audit procedures and not the name of the entity.

The disclosure of the names of other participants in the audit would include the names of all independent public accounting firms that participated in the audit, which may or may not be affiliated with the accounting firm issuing the audit report. The names of these firms may be similar to the name of the accounting firm issuing the audit report, as is the case with many of the larger public accounting firms. In the case of smaller public accounting firms, such firms may not be part of a network of firms or the network firms may not have names similar to the name of the accounting firm issuing the audit report. The Board is interested in comments on whether the proposed disclosure would have any effects on competition.

The proposed amendments also would require including a statement in the audit report that the auditor (a) is responsible for the audits of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or audit procedures performed by other participants in the audit and (b) has supervised the work of other participants in the audit or performed procedures to assume responsibility for the work of the other participants in accordance with PCAOB standards. Because this statement would clarify who is responsible for the audit procedures performed, the Board has proposed to delete language in AU sec. 543 that prohibits independent public accounting firms from making reference to another firm unless the firm is dividing responsibility with the other firm.

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Under the Board's proposal, disclosing other participants in the audit would not represent a qualification of the auditor's opinion nor would it change the responsibility of the auditor for the performance of the audit. The proposed disclosure would not constitute making reference pursuant to paragraphs .06 through .09 of AU sec. 543 and would not suggest that the auditor has divided responsibility with another independent public accounting firm. Furthermore, the proposed amendments would not change the requirements regarding the auditor's determination of whether the auditor's extent of participation in the audit is sufficient to serve as principal auditor pursuant to paragraph .02 of AU sec. 543.

Questions:

21. Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?

22. Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?

23. Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?

24. Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?

25. Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?

3. Disclosure of Percentage of the Total Hours in the Most Recent Period's Audit, Excluding EQR and Appendix K review

The proposed amendments would require the auditor to state the percentage of hours attributable to the audits or audit procedures performed by other participants in

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the audit in relation to the total hours in the most recent period's audit,[56/] excluding EQR and Appendix K review. The percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review would be determined as of the date of the audit report for each other firm or person participating in the audit. In calculating this percentage, the auditor may estimate the total hours for the audit and the portion of hours attributable to each participant in the audit in situations when the actual number of hours have not been reported.

The audit report includes an opinion on all periods presented in the financial statements and, when applicable, an opinion on the effectiveness of internal control over financial reporting as of the end of the most recent period. The disclosure requirement would apply only to the most recent period under audit, and, if applicable, the audit of internal control over financial reporting as of the end of the most recent period. This requirement is consistent with the proposed requirement to disclose the name of the engagement partner in the audit report for the most recent period's audit.

In cases in which the financial statements for all periods presented were audited during one audit engagement (e.g., in an initial public offering, single-period audit, or re-audit), the disclosure would state the percentage of audit hours attributable to the audits or audit procedures performed by other participants in the audit in relation to the total audit hours, excluding EQR and Appendix K review, for all periods presented. In these circumstances, the auditor should indicate that the percentages are aggregations of multiple periods by modifying the first sentence of the explanatory paragraph and, if applicable, in the introductory paragraph in the appendix to the audit report to include all relevant periods.

There may be situations in which an audit report is dual-dated. In these circumstances, the proposed amendments would require that the auditor: (a) repeat in the audit report the most recent disclosure before the dual-dating and (b) supplement it by stating, separately, the percentage of hours attributable to the work performed subsequent to the original report date.

The percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, is included in the proposed requirement because it appears to be the most appropriate quantitative measure of the other participants' relative participation in the audit. Other metrics were considered to reflect the audit procedures performed by other participants in the audit. For instance, fees incurred in

[56/] The total hours in the most recent period's audit are comprised of hours attributable to the financial statement audit and, when applicable, the audit of internal control over financial reporting; and reviews pursuant to AU sec. 722.

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the most recent period's audit incurred by other participants in the audit as a percentage of audit fees in the issuer's proxy disclosure were considered. However, this measure may not be representative of the extent of other participants' participation in the audit because audit fees in the proxy disclosure may include fees for other services (e.g., other regulatory and statutory filings) and also may exclude fees paid directly to other participants rather than to the auditor.

The Board also considered requiring a disclosure of percentages of revenues or assets, which would be similar to the disclosure required when making reference pursuant to AU sec. 543.[57/] However, percentages of revenues or assets tested may not be appropriate in the context of assuming responsibility for or supervising the work of other participants because the level of procedures applied to the accounts can vary significantly and different participants can apply procedures to the same account. For instance, other participants in the audit might perform an inventory observation to test the existence of the inventory at a particular location, and the auditor might test the valuation of the inventory at all locations including the one tested by the other firms and persons.

The percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, quantitatively represents the extent of participation of each other participant in the audit. The Board believes that auditors routinely record and collect time spent on the audit. Therefore, the incremental effort to comply with the proposed disclosure should be limited to calculating the percentage of time incurred as required by this proposal.[58/]

For reasons stated above, the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, appears to be the most relevant and practical metric of the extent of other participants' participation in the audit. The proposed amendments include an example of the proposed disclosure.

57/ Paragraph .07 of AU sec. 543. The Board does not propose to change this requirement. See detailed discussion of the proposed requirements when making reference pursuant to AU sec. 543 in Section III.B later in this release.

58/ The Board seeks comment on situations in which auditors do not routinely record or collect time spent on performing audits of particular entities (e.g., audits of equity-method investees) and whether such information could be obtained with reasonable effort (see Question 27).

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Questions:

26. Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?

27. What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?

28. Should the Board require discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosures?

29. Would the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated be useful to users of the audit report?

30. Is the example disclosure in the proposed amendments helpful? Would additional examples be helpful? If so, what kind?

4. Thresholds

The proposed amendments would apply to all other participants in the audit. In preparing these amendments the Board's intention was to provide the most meaningful information to investors and other users of the financial statements about participants in the audit and therefore the Board considered whether there should be a threshold below which firms or persons would not be required to be disclosed. The thresholds considered by the Board included:

- The "substantial role" threshold – The role played by other participants in preparing or furnishing the audit report was not substantial, as defined in PCAOB Rule 1001;[59/]

59/ According to paragraph (p)(ii), "Play a Substantial Role in the Preparation or Furnishing of an Audit Report," of PCAOB Rule 1001, *Definitions of Terms Employed in Rules*, "[t]he phrase "play a substantial role in the preparation or furnishing of an audit report" means – (1) to perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report with respect to any issuer, or (2) to perform the majority of the audit procedures with respect to a subsidiary or component

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- A minimum percentage threshold – A certain minimum percentage of the total hours in the most recent period's audit attributable to other participants individually or as a group (e.g., 1 percent, 3 percent, 5 percent); and,

- The registration threshold – Other firms not registered with the PCAOB.

Given the various considerations regarding each of these possible thresholds, the Board decided to propose a 3% threshold for disclosing other participants in the audit. Specifically, the Board proposes requiring that other participants in the audit whose individual extent of participation is 3% or more of total hours in the most recent period's audit be disclosed individually with their respective percentage of total hours in the most recent period's audit. Those other participants in the audit whose individual extent of participation is less than 3% of the total hours in the most recent period's audit should be disclosed either individually with their respective percentage of total hours in the most recent period's audit or as a group titled "other participants" with the percentage of total hours attributable to the audit procedures performed by the group.

Questions:

31. Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% or greater? Would another threshold be more appropriate?

32. Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?

B. Disclosure When Dividing Responsibility

In situations in which another independent public accounting firm has audited the financial statements and, if applicable, internal control over financial reporting of one or more subsidiaries, divisions, branches, components, or investments included in the financial statements, and certain conditions are met, PCAOB standards allow the auditor to make reference in the audit report to the report of the other firm. This

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of any issuer the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer necessary for the principal accountant to issue an audit report on the issuer." Under PCAOB Rule 2100, each public accounting firm that "plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer must be registered with the Board."

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reference is an indication of the divided responsibility between the auditor and the referred-to accounting firm that conducted the audit of various components of the consolidated financial statements. Under existing PCAOB standards, the auditor is not required to name the referred-to accounting firm and should not disclose the name of a referred-to firm without obtaining that firm's express permission.[60/]

The proposed amendments to AU sec. 543 would require the auditor to disclose in the audit report the name of the referred-to accounting firm and the country of its headquarters' office location. Additionally, the proposed amendments to AU sec. 543 would remove the existing requirement to obtain express permission of the referred-to firm when disclosing the firm's name. The SEC rules already include a requirement that the audit report of a referred-to firm should be filed with the SEC, so the name of the firm is already made public.[61/] However, including the name of referred-to firm in the audit report on the consolidated financial statements would make it more transparent for investors and other users of the audit report.

The proposed amendments would not change the existing requirement to disclose the magnitude of the portion of the financial statements audited by the referred-to firm by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements audited by the referred-to accounting firm.[62/]

Questions:

33. Are the requirements to disclose the name and country of headquarters' office location of the referred-to firm sufficiently clear and appropriate?

34. Are there any challenges associated with removing the requirement to obtain express permission of the referred-to firm for disclosing its name in the audit report? If so, what are the challenges and how could they be overcome?

35. In situations in which the audit report discloses both the referred-to firm and other participants in the audit, would using different disclosure metrics (e.g., revenue for the referred-to firm and percentage of the total hours in the most recent period's audit for the other firms and persons) create

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60/ Paragraphs .03 and .06 through .09 of AU sec. 543.

61/ See Rule 2-05 of Regulation S-X.

62/ Paragraph .07 of AU sec. 543.

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confusion? If so, what should the disclosure requirements be in such situations?

IV. Opportunity for Public Comment

The Board will seek comment for a 90-day period. Interested persons are encouraged to submit their views to the Board. Written comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to comments@pcaobus.org or through the Board's Web site at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 29 in the subject or reference line and should be received by the Board no later than 5:00 PM EDT on January 9, 2012. The Board will consider all comments received.

On the 11th day of October, in the year 2011, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ J. Gordon Seymour

J. Gordon Seymour
Secretary

October 11, 2011

APPENDIX A – Proposed Amendments to PCAOB Auditing Standards for Disclosure of the Engagement Partner

APPENDIX B – Proposed Amendment to Form 2

APPENDIX C – Proposed Amendments to PCAOB Auditing Standards for Disclosure of Other Participants in the Audit

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Appendix A

Proposed Amendments to PCAOB Auditing Standards for Disclosure of the Engagement Partner

AU sec. 508, "Reports on Audited Financial Statements"

SAS No. 58, "Reports on Audited Financial Statements" (AU sec. 508, "Reports on Audited Financial Statements"), as amended, is amended as follows:

a. In paragraph .08, subparagraph c-1 is added, as follows:

The name of the engagement partner responsible for the most recent period's audit, except that:

(1) In cases in which the financial statements for all periods presented were audited during one audit engagement (e.g., in an initial public offering, single-period audit, or re-audit) i.e., when the engagement partner was responsible for the audit for all of the periods presented, the name of the engagement partner for all periods presented should be disclosed, and

(2) In cases in which an audit report is dual-dated and the engagement partner is changed after the original date of the report, the names of both engagement partners.

b. In paragraph .08, at the end of the first paragraph of the example report on financial statements covering a single year, the following new sentence is added:

The engagement partner responsible for the audit resulting in this report was [name].

c. In paragraph .08, at the end of the first paragraph of the example report on comparative financial statements, the following new sentences are added:

The engagement partner responsible for the audit for the [period] ended [date] was [name]. [[*When the financial statements for all periods presented were audited during one audit engagement*] The engagement

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partner responsible for the audit resulting in this report was [name]. [*When the report is dual-dated and the firm changes the engagement partner after the original date of the report*] The engagement partner responsible for the audit for the period ended December 31, 20X2 was Partner A, except for Note X, for which the engagement partner was Partner B.]

d. In paragraph .13, between the third and fourth sentences of the first paragraph of the example report indicating a division of responsibility, the following new sentence is inserted:

    The engagement partner responsible for the audit for the [period] ended [date] was [name].

e. In paragraph .34, at the end of the first paragraph of the example report on the balance sheet only, the following new sentence is added:

    The engagement partner responsible for the audit for the [period] ended [date] was [name].

f. In paragraph .44, at the end of the first paragraph of the example of a qualified report, the following new sentence is added:

    The engagement partner responsible for the audit for the [period] ended [date] was [name].

g. In paragraph .63, at the end of the first paragraph of the example of a report disclaiming an opinion, the following new sentence is added:

    The engagement partner responsible for the audit for the [period] ended [date] was [name].

h. In paragraph .74, between the third and fourth sentences of the first paragraph of the example of a successor auditor's report, the following new sentence is inserted:

    The engagement partner responsible for the audit for the [period] ended [date] was [name].

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AU sec. 9508, "Reports on Audited Financial Statements: Auditing Interpretations of Section 508"

AU sec. 9508, "Reports on Audited Financial Statements: Auditing Interpretations of Section 508," as amended, is amended as follows:

a. In paragraph .36, at the end of the first paragraph of the example Report on Single Year Financial Statements in Year of Adoption of Liquidation Basis, the following new sentence is added:

> The engagement partner responsible for the audit resulting in this report was [name].

b. In paragraph .36, at the end of the first paragraph of the example report on Comparative Financial Statements in Year of Adoption of Liquidation Basis, the following new sentence is added:

> The engagement partner responsible for the audit for the [period] ended [date] was [name].

AU sec. 543, "Part of Audit Performed by Other Independent Auditors"

SAS No. 1, "Codification of Auditing Standards and Procedures," section 543 "Part of Audit Performed by Other Independent Auditors" (AU sec. 543, "Part of Audit Performed by Other Independent Auditors"), as amended, is amended as follows:

In paragraph .09, between the third and fourth sentences of the first paragraph of the example report indicating a division of responsibility, the following new sentence is inserted:

> The engagement partner responsible for the audit for the [period] ended [date] was [name].

Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*

Auditing Standard No. 1 is amended as follows:

In paragraph 1 of the Appendix, at the end of the first paragraph of the illustrative report on an audit of financial statements, the following new sentence is added:

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> The engagement partner responsible for the audit for the [period] ended [date] was [name].

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*

Auditing Standard No. 5 is amended as follows:

a. In paragraph 85, subparagraph d-1 is added, as follows:

> The name of the engagement partner responsible for the engagement resulting in the audit report on internal control over financial reporting.

b. In paragraph 87, at the end of the first paragraph of the example report, the following new sentences are added:

> The engagement partner responsible for the audit for the [period] ended [date] was [name]. [[*When the financial statements for all periods presented were audited during one audit engagement*] The engagement partner responsible for the audit resulting in this report was [name]. [*When the report is dual-dated and the firm changes the engagement partner after the original date of the report*] The engagement partner responsible for the audit for the period ended December 31, 20X8 was Partner A, except for Note X, for which the engagement partner was Partner B.]

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Appendix B

Proposed Amendment to Form 2

Form 2 – Annual Report Form

a. Item 4.1a is amended by adding the following new subparagraph:

   4. The name of the engagement partner responsible for the engagement resulting in the audit report.

b. Item 4.1.a is amended by adding the following new note:

   Note: In responding to Items 4.1.a.4, in cases in which an audit report is dual-dated and the engagement partner is changed after the original date of the report provide the names of both engagement partners.

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Appendix C

Proposed Amendments to PCAOB Auditing Standards for Disclosure of Other Participants in the Audit

AU sec. 508, *Reports on Audited Financial Statements*

SAS No. 58, "Reports on Audited Financial Statements" (AU sec. 508, "Reports on Audited Financial Statements"), as amended, is amended as follows:

a. In subparagraph .11a, the text is replaced with the following:

> The auditor's opinion is based, in part, on the report of another auditor, and the auditor makes reference to the audit of the other auditor pursuant to AU sec. 543, *Part of Audit Performed by Other Independent Auditors* (paragraphs .12 and .13).

b. In paragraph .11, subparagraph a-1 is added, as follows:

> Other independent public accounting firms perform an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments, or other independent public accounting firms or persons[10a] not employed by the auditor perform audit procedures in the most recent reporting period's audit, other than in the circumstance described in paragraph 11.a (paragraphs .14A through .14C).
>
> [10a] PCAOB Rule 1001(p)(iv) defines the term "person" to mean any natural person or any business, legal or governmental entity or association.

c. In paragraph .12, delete the title "*Part of Audit Performed by Other Independent Auditors*" from the parentheses.

d. In paragraph .13, in the example of a report indicating a division of responsibility,

- The last sentence of the first paragraph is replaced with the following:

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Those statements were audited by [name of other auditors and country of their headquarters' office location] whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of [name of other auditors].

- The last sentence of the second paragraph is replaced with the following:

  We believe that our audits and the report of [name of other auditors] provide a reasonable basis for our opinion.

- In the first sentence of the third paragraph, the phrase "other auditors" is replaced with "[name of other auditors]."

e. The following section header is inserted after the amended paragraph .13:

Other Independent Public Accounting Firms or Persons Not Employed By the Auditor Perform an Audit or Audit Procedures in the Most Recent Period's Audit

f. Paragraph .14A is inserted, as follows:

When another independent public accounting firm performs an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or another independent public accounting firm or person not employed by the auditor performs audit procedures in the most recent period's audit, other than an independent auditor whose audit is referred to pursuant to paragraphs .06 through .09 of AU sec. 543 and other than as provided by paragraph .14B, the following items should be disclosed in the audit report through the addition of an explanatory paragraph following the opinion paragraph and any other explanatory paragraphs: (1) the name(s) and country(ies) of headquarters' office location of such firm(s) and/or (2) the name(s) and country(ies) of residence or headquarters' office location of such person(s), and (3) the percentage of the hours attributable to audits or audit procedures performed by the firm(s) or person(s) in relation to the total hours in the most recent period's audit, which include the hours incurred in performing reviews pursuant to AU sec. 722, *Interim Financial Information*, as of the date of the audit report. The explanatory paragraph also should include a statement that the auditor is responsible for the audits or audit procedures performed by the firm(s) or person(s) and has supervised or performed procedures to assume responsibility for the work in accordance with PCAOB standards.

Note: The explanatory paragraph can refer to an appendix immediately following the audit report that includes the required disclosure.

Note: For purposes of this disclosure, the auditor should disclose the name of the firm or person with whom the auditor has the contractual relationship.

Note: In cases in which the financial statements for all periods presented were audited during one audit engagement (e.g., in an initial public offering, single-period audit, or re-audit), the disclosure should state the percentage of audit hours attributable to the audits or audit procedures performed by independent public accounting firms other than the firm issuing the audit report and other persons participating in the audit in relation to the total audit hours for all periods presented.

Note: In cases in which an audit report is dual-dated, the auditor should: (a) repeat in the audit report the most recent disclosure before the dual-dating and (b) supplement it by stating, separately, the percentage of hours attributable to the work performed subsequent to the original report date.

Note: Independent public accounting firms other than the firm issuing the audit report and other persons participating in the audit whose individual extent of participation is 3% or more of total hours in the most recent period's audit should be disclosed individually with their respective percentage of total hours. Other firms and persons participating in the audit whose individual extent of participation is less than 3% of the total hours in the most recent period's audit should be disclosed either individually, with their respective percentage of total hours in the most recent period's audit, or as a group titled "other participants," with the percentage of total hours attributable to the audit or audit procedures performed by the group.

Note: The disclosure required by this paragraph does not constitute making reference pursuant to paragraphs .06 through .09 of AU sec. 543 or suggest that the auditor has divided responsibility for the performance of the audit with another auditor.

g. Paragraph .14B is inserted, as follows:

Excluded from the disclosures required by paragraph .14A is the name of the individual who performed the engagement quality review ("EQR") and the name of persons that performed the filing review pursuant to SECPS Section 1000.45 Appendix K ("Appendix K review") and the hours attributable to the EQR and Appendix K review. Also excluded from the disclosures required by paragraph .14A are (1) persons with specialized skill or knowledge in a particular field other than accounting or auditing, (2) internal auditors, other company personnel, or third parties working under the direction of management or the audit committee who provided direct assistance in the audit of internal control over financial reporting, and (3) internal auditors who provide direct assistance in the audit of the financial statements.

h. Paragraph .14C is inserted, as follows:

Examples of the explanatory paragraph described in paragraph .14A follow:

An example of the explanatory paragraph for situations in which another independent accounting firm performed certain audit procedures – In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, ABC Audit Firm (country of headquarters' office location) performed certain audit procedures. We are responsible for the audit procedures performed by ABC Audit Firm and, accordingly, have supervised their work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by ABC Audit Firm in our audit was X%.

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An example or the explanatory paragraph for situations in which another independent accounting firm performed an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments – In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, ABC Audit Firm (country of headquarters' office location) performed an audit of the financial statements of one of XYZ Company's subsidiaries. We are responsible for the audit performed by ABC Audit Firm, insofar as that audit relates to our expression of an opinion on the financial statements taken as a whole and, accordingly, have performed procedures to assume responsibility for their work in accordance with PCAOB standards. The portion of the total audit hours attributable to the audit performed by ABC Audit Firm in our audit was X%.

i. Paragraph .14D is inserted, as follows:

An example of the explanatory paragraph using an appendix described in paragraph .14A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, the other independent public accounting firms listed in the Appendix to this report performed [*choose applicable*: audits of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or certain audit procedures], and persons listed in the Appendix performed certain audit procedures. We are responsible for the audits and audit procedures performed by the other independent public accounting firms and persons listed in the Appendix to this report and, accordingly, have supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards.

APPENDIX

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, the other independent public accounting firms listed below performed [*choose applicable*: audits of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or certain audit procedures], and persons listed below performed certain audit procedures. The portion of the total audit hours attributable to audits and audit procedures performed by these other independent public accounting firms and persons in our audit follows:

Other participants in the audit	**Percentage of total audit hours for the [period] ended [date]**
ABC Audit Firm (country of headquarters' office location)	21 %
DEF Audit Firm (country of headquarters' office location)	12
GHI Consulting Business (country of headquarters' office location)	5
JKL Audit Firm (country of headquarters' office location)	4
Mr. Person Y (country of residence)	3
Other participants, all individually less than 3% of total audit hours	15

j. Paragraph .14E is inserted, as follows:

In cases in which the financial statements for all periods presented were audited during one audit engagement (e.g., in an initial public offering, single-period audit, or re-audit), an example of the explanatory paragraph described in paragraph .14A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period(s)] ended [date(s)], ABC Audit Firm (country of headquarters' office location) performed certain audit procedures. We are responsible for the audit procedures performed by ABC Audit Firm and, accordingly, have supervised their work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by ABC Audit Firm in our audit was X%.

k. Paragraph .14F is inserted, as follows:

In cases in which the financial statements for all periods presented were audited during one audit engagement (e.g., in an initial public offering, single-period audit, or re-audit), an example of the explanatory paragraph using an appendix described in paragraph .14A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period(s)] ended [date(s)], the other independent public accounting firms and persons listed in the Appendix to this report performed certain audit procedures. We are responsible for the audit procedures performed by the other independent public accounting firms and persons listed in the Appendix to this report and, accordingly, have supervised their work in accordance with PCAOB standards.

APPENDIX

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period(s)] ended [dates(s)], the other independent public accounting firms and persons listed below performed certain audit procedures. The portion of the total audit hours attributable to audit procedures performed by these other independent public accounting firms and persons in our audit follows:

Other participants in the audit	**Percentage of total audit hours for the [period(s)] ended [date(s)]**
ABC Audit Firm (country of headquarters' office location)	21 %
DEF Audit Firm (country of headquarters' office location)	12
GHI Consulting Business (country of headquarters' office location)	5
JKL Audit Firm (country of headquarters' office location)	4
Mr. Person Y (country of residence)	3
Other participants, all individually less than 3% of total audit hours	15

I. Paragraph .14G is inserted, as follows:

In cases in which an auditor dual-dates the audit report (e.g., the company restates its financial statements before the end of the next annual reporting period), an example of the explanatory paragraph described in paragraph .14A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period] ended [date], ABC Audit Firm (country of headquarters' office location) performed certain audit procedures. We are responsible for the audit procedures performed by ABC Audit Firm and, accordingly, have supervised their work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by ABC Audit Firm in our audit was X%. The portion of the total audit hours attributable to audit procedures performed by ABC Audit Firm in our audit procedures performed subsequent to [date of original audit report] was Y%.

m. Paragraph .14H is inserted, as follows:

In cases in which an auditor dual-dates the audit report (e.g., the company restates its financial statements before the end of the next annual reporting period), an example of the explanatory paragraph using an appendix described in paragraph .14A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period] ended [date], the other independent public accounting firms and persons listed in the Appendix to this report performed certain audit procedures. We are responsible for the audit procedures performed by the other independent public accounting firms and persons listed in the Appendix to this report and, accordingly, have supervised their work in accordance with PCAOB standards.

APPENDIX

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period] ended [date], the other independent public accounting firms and persons listed below performed certain audit procedures. The portion of the total audit hours attributable to audit procedures performed by these other independent public accounting firms and persons in our audit follows:

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Other participants in the audit	Percentage of total audit hours for the [period] ended [date]: Up to [date of original report]	Subsequent to [date of original report]
ABC Audit Firm (country of headquarters' office location)	21 %	10 %
DEF Audit Firm (country of headquarters' office location)	12	8
GHI Consulting Business (country of headquarters' office location)	5	–
JKL Audit Firm (country of headquarters' office location)	4	–
Mr. Person Y (country of residence)	3	–
Other participants, all individually less than 3% of total audit hours	15	3

AU sec. 543, "Part of Audit Performed by Other Independent Auditors"

SAS No. 1, "Codification of Auditing Standards and Procedures" section 543, "Part of Audit Performed by Other Independent Auditors" (AU sec. 543, "Part of Audit Performed by Other Independent Auditors"), as amended, is amended as follows:

a. In paragraph .04, the last sentence is replaced with the following:

   If the principal auditor decides to take this position, he should not make reference to the audit of the other auditor in the audit report, as described in paragraphs .06 through .09.

b. The following note is added after paragraph .04:

   Note: When the principal auditor does not make reference to the audit of the other auditor, paragraph .14A of AU sec. 508, *Reports on Audited Financial Statements*, requires disclosure of the other auditor.

c. In paragraph .07,

   - The second and third sentences are replaced with the following:

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The report should disclose the name of the other auditor, the country of headquarters' office location of the other auditor, and the magnitude of the portion of the financial statements audited by the other auditor. Disclosing the magnitude of the portion of the financial statements audited by the other auditor may be accomplished by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements audited by the other auditor.

- The last sentence and footnote 3 are deleted.

d. In paragraph .09,

- The last sentence of the first paragraph of the example report is replaced with the following:

  Those statements were audited by [name of other auditors and country of headquarters' office location] whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of [name of other auditors].

- The last sentence of the second paragraph of the example report is replaced with the following:

  We believe that our audit and the report of [name of other auditors] provide a reasonable basis for our opinion.

- In the first sentence of the third paragraph of the example report, the phrase "the other auditors" is replaced with "[name of other auditors]."

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, is amended, as follows:

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a. In paragraph C1, subparagraph c-1 is added, as follows:

Other independent public accounting firms perform an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments, or other independent public accounting firms or persons[0a] not employed by the auditor perform audit procedures in the most recent period's audit, other than in the circumstance described in paragraph C1.c.

[0a] PCAOB Rule 1001(p)(iv) defines the term "person" to mean any natural person or any business, legal or governmental entity or association.

b. Paragraph C11-A is added, as follows:

Other Independent Public Accounting Firms or Persons Not Employed by the Auditor Perform an Audit or Audit Procedures in the Most Recent Period's Audit.

When another independent public accounting firm performs an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or another independent public accounting firm or a person who is not employed by the auditor performs audit procedures in the audit of the company's internal control over financial reporting, other than an independent auditor whose audit is referred to pursuant to paragraphs .06 through .09 of AU sec. 543 and other than as provided by paragraph C11-B, the following items should be disclosed in the combined audit report for the most recent reporting period under audit through the addition of an explanatory paragraph following the opinion paragraph and any other explanatory paragraphs: (1) the name(s) and country(ies) of headquarters' office location of such firm(s) and/or (2) the name(s) and country(ies) of residence or headquarters' office location of such person(s), and (3) the percentage of the hours attributable to audits or audit procedures performed by the firm(s) or person(s) in relation to the total hours in the most recent period's audit, which include the hours incurred in performing reviews pursuant to AU sec. 722, *Interim Financial Information*, as of the date of the audit report. When the auditor chooses to issue a separate report on internal control over financial reporting, this paragraph should follow the paragraph required by paragraph 88 in each separate report. The explanatory paragraph also should include a statement that the auditor is responsible for the audits or audit procedures performed by the firm(s) or person(s) and has supervised or performed procedures to assume responsibility for the work in accordance with PCAOB standards.

> Note: The explanatory paragraph can refer to an appendix immediately following the audit report that includes the required disclosure.
>
> Note: For purposes of this disclosure, the auditor should disclose the name of the firm or person with whom the auditor has the contractual relationship.
>
> Note: In cases in which the financial statements for all periods presented were audited during one audit engagement (e.g., in an initial public offering, single-period audit, or re-audit), the disclosure should state the percentage of audit hours attributable to the audits or audit procedures performed by independent public accounting firms other than the firm issuing the audit report and other persons participating in the audit in relation to the total audit hours for all periods presented.
>
> Note: In cases in which an audit report is dual-dated, the auditor should: (a) repeat in the audit report the most recent disclosure before the dual-dating and (b) supplement it by stating, separately, the percentage of hours attributable to the work performed subsequent to the original report date.
>
> Note: Independent public accounting firms other than the firm issuing the audit report and other persons participating in the audit whose individual extent of participation is 3% or more of total hours in the most recent period's audit should be disclosed individually with their respective percentage of total hours. Other firms and persons participating in the audit whose individual extent of participation is less than 3% of the total hours in the most recent period's audit should be disclosed either individually, with their respective percentage of total hours in the most recent period's audit, or as a group titled "other participants," with the percentage

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of total hours attributable to the audit or audit procedures performed by the group.

Note: The disclosure required by this paragraph does not constitute making reference pursuant to paragraphs .06 through .09 of AU sec. 543 or suggest that the auditor has divided responsibility for the performance of the audit with another auditor.

c. Paragraph C11-B is inserted, as follows:

Excluded from the disclosures required by paragraph C11-A is the name of the individual who performed the engagement quality review ("EQR") and the name of persons that performed the filing review pursuant to SECPS Section 1000.45 Appendix K ("Appendix K review") and the hours attributable to the EQR and Appendix K review. Also excluded from the disclosures required by paragraph C11-A are (1) persons with specialized skill or knowledge in a particular field other than accounting or auditing, (2) internal auditors, other company personnel, or third parties working under the direction of management or the audit committee who provided direct assistance in the audit of internal control over financial reporting, and (3) internal auditors who provide direct assistance in the audit of the financial statements.

d. Paragraph C11-C is inserted, as follows:

Examples of the explanatory paragraph described in paragraph C11-A follow:

An example of the explanatory paragraph for situations in which another independent accounting firm performed certain audit procedures – In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2 and of the effectiveness of internal control over financial reporting as of December 31, 20x2, ABC Audit Firm (country of headquarters' office location) performed certain audit procedures. We are responsible for the audit procedures performed by ABC Audit Firm and, accordingly, have supervised their work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by ABC Audit Firm in our audit was X%.

An example of the explanatory paragraph for situations in which another independent accounting firm performed an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments – In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2 and of the effectiveness of internal control over financial reporting as of December 31, 20x2, ABC Audit Firm (country of headquarters' office location) performed an audit of the financial statements of one of XYZ Company's subsidiaries. We are responsible for the audit performed by ABC Audit Firm, insofar as that audit relates to our expression of an opinion on the financial statements taken as a whole and, accordingly, have performed procedures to assume responsibility for their work in accordance with PCAOB standards. The portion of the total audit hours attributable to the audit performed by ABC Audit Firm in our audit was X%.

e. Paragraph C11-D is inserted, as follows:

An example of the explanatory paragraph using an appendix described in paragraph C11-A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2 and of the effectiveness of internal control over financial reporting as of December 31, 20x2, the other independent public accounting firms listed in the Appendix to this report performed [*choose applicable*: audits of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or certain audit procedures], and persons listed in the Appendix performed certain audit procedures. We are responsible for the audits and audit procedures performed by the other independent public accounting firms and persons listed in the Appendix to this report and accordingly, have supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards.

APPENDIX

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2 and of the effectiveness of internal control over financial reporting as of December 31, 20x2, the other independent public accounting firms listed below performed [*choose applicable*: audits of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or certain audit procedures], and persons listed below performed certain audit procedures. The portion of the total audit attributable to audits and audit procedures performed by these other independent public accounting firms and persons in our audit follows:

Other participants in the audit	**Percentage of total audit hours for the [period] ended [date]**
ABC Audit Firm (country of headquarters' office location)	21 %
DEF Audit Firm (country of headquarters' office location)	12
GHI Consulting Business (country of headquarters' office location)	5
JKL Audit Firm (country of headquarters' office location)	4
Mr. Person Y (country of residence)	3
Other participants, all individually less than 3% of total audit hours	15

f. Paragraph C11-E is inserted, as follows:

In cases in which the financial statements for all periods presented were audited during one audit engagement (e.g., in an initial public offering, single-period audit, or re-audit), an example of the explanatory paragraph described in paragraph C11-A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period(s)] ended [date(s)] and of the effectiveness of internal control over financial reporting as of [date], ABC Audit Firm (country of headquarters' office location) performed certain audit procedures. We are responsible for the audit procedures performed by ABC Audit Firm and, accordingly, have supervised their work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by ABC Audit Firm in our audit was X%.

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g. Paragraph C11-F is inserted, as follows:

In cases in which the financial statements for all periods presented were audited during one audit engagement (e.g., in an initial public offering, single-period audit, or re-audit), an example of the explanatory paragraph using an appendix described in paragraph C11-A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period(s)] ended [date(s)] and of the effectiveness of internal control over financial reporting as of [date], the other independent public accounting firms and persons listed in the Appendix to this report performed certain audit procedures. We are responsible for the audit procedures performed by the other independent public accounting firms and persons listed in the Appendix to this report and, accordingly, have supervised their work in accordance with PCAOB standards.

APPENDIX

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period(s)] ended [date(s)] and of the effectiveness of internal control over financial reporting as of [date], the other independent public accounting firms and persons listed below performed certain audit procedures. The portion of the total audit hours attributable to audit procedures performed by these other independent public accounting firms and persons in our audit follows:

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Other participants in the audit	**Percentage of total audit hours for the [period(s)] ended [date(s)]**
ABC Audit Firm (country of headquarters' office location)	21 %
DEF Audit Firm (country of headquarters' office location)	12
GHI Consulting Business (country of headquarters' office location)	5
JKL Audit Firm (country of headquarters' office location)	4
Mr. Person Y (country of residence)	3
Other participants, all individually less than 3% of total audit hours	15

h. Paragraph C11-G is inserted, as follows:

In cases in which an auditor dual-dates the audit report (e.g., the company restates its financial statements before the end of the next annual reporting period), an example of the explanatory paragraph described in paragraph C11-A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period] ended [date] and of the effectiveness of internal control over financial reporting as of [date], ABC Audit Firm (country of headquarters' office location) performed certain audit procedures. We are responsible for the audit procedures performed by ABC Audit Firm and, accordingly, have supervised their work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by ABC Audit Firm in our audit was X%. The portion of the total audit hours attributable to audit procedures performed by ABC Audit Firm in our audit procedures subsequent to [date of original audit report] was Y%.

i. Paragraph C11-H is inserted, as follows:

In cases in which an auditor dual-dates the audit report (e.g., the company restates its financial statements before the end of the next annual reporting period), an example of the explanatory paragraph using an appendix described in paragraph C11-A follows:

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In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period] ended [date] and of the effectiveness of internal control over financial reporting as of [date], the other independent public accounting firms and persons listed in the Appendix to this report performed certain audit procedures. We are responsible for the audit procedures performed by the other independent public accounting firms and persons listed in the Appendix to this report and, accordingly, have supervised their work in accordance with PCAOB standards.

APPENDIX

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the [period] ended [date] and of the effectiveness of internal control over financial reporting as of [date], the other independent public accounting firms and persons listed below performed certain audit procedures. The portion of the total audit hours attributable to audit procedures performed by these other independent public accounting firms and persons in our audit follows:

	Percentage of total audit hours for the [period] ended [date]	
Other participants in the audit	**Up to [date of original report]**	**Subsequent to [date of original report]**
ABC Audit Firm (country of headquarters' office location)	21 %	10 %
DEF Audit Firm (country of headquarters' office location)	12	8
GHI Consulting Business (country of headquarters' office location)	5	–
JKL Audit Firm (country of headquarters' office location)	4	–
Mr. Person Y (country of residence)	3	–
Other participants, all individually less than 3% of total audit hours	15	3

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IMPROVING THE TRANSPARENCY OF AUDITS: PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS TO PROVIDE DISCLOSURE IN THE AUDITOR'S REPORT OF CERTAIN PARTICIPANTS IN THE AUDIT

PCAOB Release No. 2013-009
December 4, 2013

PCAOB Rulemaking
Docket Matter No. 029

Summary: The Public Company Accounting Oversight Board ("PCAOB" or "Board") is reproposing amendments to its standards that would improve the transparency of public company audits. The amendments would require (1) disclosure in the auditor's report of the name of the engagement partner and (2) disclosure in the auditor's report of the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and the locations and extent of participation of other persons not employed by the auditor that took part in the audit.

Public Comment: Interested persons may submit written comments to the Board. Such comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to comments@pcaobus.org or through the Board's website at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 029 in the subject or reference line. Comments should be received by the Board no later than 5:00 p.m. EST on February 3, 2014.

Board Contacts: Jennifer Rand, Deputy Chief Auditor (202/207-9206, randj@pcaobus.org); Jessica Watts, Associate Chief Auditor (202/207-9376, wattsj@pcaobus.org); Lisa Calandriello, Assistant Chief Auditor (202/207-9337, calandriellol@pcaobus.org); and Ekaterina Dizna, Assistant Chief Auditor (202/591-4125, diznae@pcaobus.org).

* * *

I. Introduction

The Board is reproposing amendments to its auditing standards that would require the accounting firm issuing an auditor's report ("auditor") to disclose in the auditor's report (1) the name of the engagement partner on the most recent period's audit and (2) the names, locations, and extent of participation of other public accounting firms[1/] that took part in the audit and the locations and extent of participation of other persons (whether an individual or a company)[2/] not employed by the auditor who performed procedures on the audit ("other participants in the audit"). These are disclosure requirements and, except for the disclosure obligations they would impose, would not change the performance obligations of the auditor in conducting the audit. The Board believes that providing information about the engagement partner and the other participants in the audit in the auditor's report would be useful to investors and other financial statement users and would be consistent with the Board's mission to further the public interest in the preparation of "informative, accurate, and independent audit reports."[3/]

Robust disclosure is the cornerstone of the U.S. federal securities regulatory regime and is essential to efficient capital formation and allocation. Access to meaningful information about a public company allows investors to make informed judgments about the company's financial position and about the stewardship of the company's directors and management. The Board believes that more disclosure about certain aspects of the audit of a public company, including about the identity of the engagement partner and other firms associated with the audit, would add to the mix of information that investors and other financial statement users have about public companies, which they would find useful.

Auditors perform a crucial public function in financial markets. Their very designation as independent public accountants recognizes that their duties transcend their responsibilities to the companies they audit. The salutation of the auditor's report

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1/ PCAOB Rule 1001(p)(iii) defines the term "public accounting firm" to mean "a proprietorship, partnership, incorporated association, corporation, limited liability company, limited liability partnership, or other legal entity that is engaged in the practice of public accounting or preparing or issuing audit reports."

2/ PCAOB Rule 1001(p)(iv) defines the term "person" to mean any natural person or any business, legal or governmental entity or association.

3/ Section 101(a) of the Sarbanes-Oxley Act of 2002.

itself, when it is addressed to the shareholders,[4/] emphasizes the public nature of the auditor's responsibility. The public, however, has had little or no information about the participants in the audit, including those who serve in the role of engagement partner or the identity of other firms and individuals who participated in the audit. Generally, in the United States, only the name of the firm that issued the opinion is disclosed in the auditor's report.

An audit firm's reputation matters, both to investors and to the audit committee of the company that retains it. But firms are comprised of individuals who conduct the audit, and investors in U.S. securities generally have not had access to information about the engagement partner responsible for the audit for the firm or whether, and to what extent, other firms played a role in the audit. This information could be valuable to investors in making investment decisions as well as if they are asked to vote to ratify the company's choice of registered firm as its auditor.

While the present lack of transparency about the persons who conduct the audit is not unique to the United States, a number of other jurisdictions with highly developed capital markets follow a different practice. For example, the European Union's ("EU's") Eighth Company Law Directive requires "at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm" to sign the auditor's report.[5/] This directive requires all EU members to enact conforming legislation.[6/] For example, one EU member, the United Kingdom, requires the auditor's report to "state the name of the

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[4/] Based on the PCAOB staff's review of 125 Form 10-K filings for fiscal year 2011, approximately 95% of auditors' reports were addressed to shareholders or other investors in the company; approximately 5% were not. To promote consistency in the addressees included in the auditor's report, under the *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments*, PCAOB Release 2013-005 (August 13, 2013) available at http://pcaobus.org/Rules/Rulemaking/Docket034/Release_2013-005_ARM.pdf, the auditor would be required to address the auditor's report to investors in the company, such as shareholders, as well as the board of directors or equivalent body.

[5/] Directive 2006/43/EC of the European Parliament and of the Council, Article 28, Audit Reporting (May 17, 2006) available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006L0043:en:NOT.

[6/] As of November 2013, 27 of the 28 EU members have enacted conforming legislation. Croatia, which joined the EU in 2013, has until 2015 to enact conforming legislation. A list of countries which have enacted conforming legislation is available at http://ec.europa.eu/internal_market/auditing/directives/index_en.htm.

auditor and be signed" and, "where the auditor is a firm, the report must be signed by the senior statutory auditor in his own name, for and on behalf of the auditor."[7/] Other countries have similar requirements. For example, Taiwan requires audit partners to sign the auditor's report, in addition to the audit firm.[8/] Australia mandates by statute that the auditor's report be signed in the name of the person responsible for the audit, as well as in the name of the audit firm.[9/] The International Auditing and Assurance Standards Board ("IAASB") also recently proposed a requirement for firms to disclose the name of the engagement partner in the auditor's report of a listed entity.[10/] If the IAASB's proposal is adopted, disclosure of the engagement partner's name in the auditor's report of a listed entity will become the norm in those jurisdictions that follow IAASB standards. While practice in other countries is not dispositive, it is indicative of a global trend toward greater transparency about audits and those who conduct them.

From its Investor Advisory Group ("IAG") and Standing Advisory Group ("SAG"), as well as from meetings with investors and other financial statement users, the Board has heard repeatedly that many people, particularly investors, want more information about the independent audit, such as information about those who conduct it. The Board believes that there are benefits to greater transparency about the audit and has attempted to respond through several initiatives, including the recently proposed standards dealing with changes to the auditor's reporting model[11/] as well as these

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[7/] Companies Act 2006, Chapter 46, as amended, Chapter 3, section 503, "Signature of auditor's report" (June 4, 2008). The Companies Act requires a signed auditor's report be maintained by the company, although published copies of the auditor's report state the name of the engagement partner and do not require signature.

[8/] See Articles 2 and 6 of Regulations Governing Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies (as amended on May 16, 2008) available at http://eng.selaw.com.tw/ShowNews.asp?LSID=FL007023.

[9/] Corporations Act 2001, Act No. 50 of 2001, as amended, section 324AB(3), "Effect of appointing firm as auditor—general" (May 16, 2012).

[10/] See IAASB's exposure draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing*, at https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international.

[11/] See *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments*, reproposed amendments. The Board believes that disclosure of the identity of the engagement partner, as well as enhanced transparency about other participants in the audit, would provide investors with information about the audits conducted for their benefit that they would find useful. The Board also recognizes that many investors as well as some other commenters believe that these measures would prompt engagement partners to perform their duties with a heightened sense of accountability to the various users of the auditor's report.[12/]

After careful study and deliberation, the Board believes that disclosure of the engagement partner and other participants in the audit would provide investors in U.S. companies with important information about the audits conducted for their benefit. The Board reached the decision to repropose these amendments, not just based on the extensive public comment it has received as it explored this issue, but also based on what the Board has learned through its oversight activities and relevant empirical research.[13/]

The Board is reproposing the amendments to seek additional comment on matters such as the usefulness of the information that would be required to be disclosed, the potential costs the reproposed amendments might impose, whether the reproposed amendments would have any effect on competition, and any other aspects of the reproposal. The Board has also made technical changes to the originally proposed requirement that the auditor disclose information about other participants in the audit, such as changing the threshold for disclosure, and seeks commenters' views on those revisions. Finally, the Board is soliciting commenters' views regarding whether the reproposed amendments should apply to audits of emerging growth companies

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PCAOB Release 2013-005 (August 13, 2013) available at http://pcaobus.org/Rules/Rulemaking/Docket034/Release_2013-005_ARM.pdf.

[12/] See U.S. Department of the Treasury's Advisory Committee on the Auditing Profession ("ACAP"), *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* ("ACAP report"), VII:19-VII:20 (October 6, 2008), available at http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf. The IAG also discussed this at its May 4, 2010 and October 16, 2013 meetings. See the summary of the May 4, 2010 meeting available at http://pcaobus.org/News/Events/Pages/05042010_IAGMeeting.aspx and the IAG meeting details, transcript, and webcast for the October 16, 2013 meeting available at http://pcaobus.org/News/Webcasts/Pages/10162013_IAGMeeting.aspx.

[13/] See discussion of empirical research in Section V., *Economic Considerations*.

("EGCs"), as that term is defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act").[14/] In particular, the Board requests comments, including any available empirical data, on whether application of the reproposed amendments to audits of EGCs would protect investors, and on whether it would promote efficiency, competition, and capital formation. Specific questions appear at the end of this release.

II. Background of the Reproposed Amendments

A. Disclosure of the Name of the Engagement Partner

The Board began in 2005 to seek advice on and to explore a variety of alternatives to make the auditor's report more informative, including by requiring disclosure of the name of the engagement partner.[15/] In addition to the Board's efforts, in 2008, the ACAP issued its final report recommending, among other things, that "the PCAOB undertake a standard-setting initiative to consider mandating the engagement partner's signature on the audit report." The ACAP report stated that "[t]he Committee believes that the engagement partner's signature on the auditor's report would increase transparency and accountability."[16/]

Based on more than ten years of oversight, the Board knows that, even within a single firm and notwithstanding firm-wide or network-wide quality control systems, the quality of individual audit engagements varies. PCAOB inspectors have observed a wide variation in the quality of auditing by many engagement teams at each of the large accounting firms that audit the largest U.S. and multinational companies. Although such differences might be due to a number of factors, the role of the engagement partner, who is responsible for the engagement and its performance, is an important factor to consider.[17/]

[14/] Pub. L. No. 112-106 (April 5, 2012).

[15/] The SAG discussed requiring the disclosure of the engagement partner through signing the auditor's report in February 2005, June 2007, October 2008, and October 2009. Transcripts of the relevant portions of the SAG meetings are available at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx. The IAG also discussed this at its May 4, 2010 meeting. See the summary of the May 4, 2010 meeting available at http://pcaobus.org/News/Events/Pages/05042010_IAGMeeting.aspx.

[16/] See ACAP report at VII:20.

[17/] See paragraph 3 of Auditing Standard No. 9, *Audit Planning*, and paragraph 3 of Auditing Standard No. 10, *Supervision of the Audit Engagement*.

Through the Board's oversight process, it has obtained information related to engagement partner quality history through a firm's internal and external inspection processes, as well as a firm's internal processes to monitor its quality controls. The Board's inspection staff historically has used this information related to engagement partner quality history in its inspection processes. This information, among other factors, is considered to be useful in making risk-based selections of audit engagements. The Board's inspection staff also understands that individual firms monitor engagement partner quality history closely and utilize this information to manage risk to the firm. Information about individual audit partners has been useful to the Board in the Board's risk-based selection of audits to inspect. While the Board recognizes the reproposed amendments would not provide investors with all of the information the Board or a firm has regarding an engagement partner, the Board also believes that information about who engagement partners are would be valuable, and, as described below, would become more so over time.

On July 28, 2009, the PCAOB issued a concept release (the "2009 Release") seeking commenters' views on whether it would be advisable for the Board to require the engagement partner to sign his or her own name to the auditor's report.[18/] While many investors supported such a requirement, a number of other commenters were concerned that it would appear to minimize the role of the accounting firm in the audit and also could result in a potential increase in the engagement partner's liability.[19/]

After considering commenters' views and its own experience, the Board issued a proposing release on October 11, 2011 (the "2011 Release") that, among other things, proposed amendments to the Board's auditing standards that would have required disclosure of the name of the engagement partner in the auditor's report.[20/] In the

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18/ See *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, PCAOB Release 2009-005 (July 28, 2009) available at http://pcaobus.org/Rules/Rulemaking/Docket029/2009-07-28_Release_No_2009-005.pdf.

19/ Comments on the 2009 Release are available at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029Comments.aspx. Comments on the 2009 Release are discussed in the 2011 Release available at http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf.

20/ See *Improving the Transparency of Audits, Proposed Amendments to PCAOB Auditing Standards and Form 2*, PCAOB Release 2011-007 (October 11, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf. The Board also proposed to require disclosure of other participants in the audit.

Board's view, this disclosure approach retains most of the potential benefits of a signature requirement, while mitigating some of the concerns, particularly liability concerns, expressed by commenters on the 2009 Release.[21/]

The Board received 43 comment letters on the 2011 Release.[22/] It was also discussed at the November 2011 and May 2013 meetings of the Board's SAG[23/] and the October 2013 meeting of the IAG.[24/] Commenters on the 2011 Release were divided and remained so over the course of the dialogue. Accounting firms generally opposed a requirement to disclose the name of the engagement partner in the auditor's report[25/]—whether by signature or only disclosure—and expressed concern that it would confuse readers of the auditor's report or lead to unintended consequences. Investors, on the other hand, argued in favor of more transparency throughout the Board's consideration of the issue. Others, such as some audit committee members and corporate officials, as well as an association of European auditors, shared the investors' views and expressed the view that naming the engagement partner in the auditor's report would be beneficial.

After considering the comment letters, the views expressed in SAG and IAG discussions, and relevant empirical research, the Board is reproposing amendments to

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21/ Id.

22/ Comments on the 2011 Release and on the 2009 Release can be found at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029Comments.aspx.

23/ Transcripts of the discussions are available on the Board's website at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx. Archived webcasts are also available on the Board's website at http://pcaobus.org/News/Webcasts/Pages/11092011_SAGMeeting.aspx and http://pcaobus.org/News/Webcasts/Pages/05152013_SAG.aspx.

24/ See IAG meeting details, transcript, and webcast for October 16, 2013 available at http://pcaobus.org/News/Webcasts/Pages/10162013_IAGMeeting.aspx.

25/ While accounting firms generally opposed the disclosure of the name of the engagement partner in the auditor's report, one accounting firm expressed support for disclosure of the name of the engagement partner in the firm's annual report filed with the PCAOB on Form 2. Some other firms, which opposed the disclosure requirement, expressed a preference for disclosure in Form 2 if the Board were to proceed with a requirement. Disclosure in Form 2 is discussed in Section V.C., Economic Considerations, Alternatives Considered, *Disclosure in Firms' Annual Reports Filed with the PCAOB on Form 2*, of this release.

its auditing standards that would require disclosure in the auditor's report of the name of the engagement partner in the most recent period's audit.

Specifically, the Board is reproposing to amend the following: AU sec. 508, *Reports on Audited Financial Statements*, AU sec. 9508, *Reports on Audited Financial Statements: Auditing Interpretations of Section 508*, AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*, and Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.[26/]

B. Disclosure About Certain Other Participants in the Audit

Investors also have called for greater disclosure in the auditor's report of the names and locations of other participants in the audit. For instance, in a March 2010 survey by the Chartered Financial Analysts Institute, 91% of respondents agreed that "in cases where there is more than one auditor, the identities and specific roles of other auditors should be disclosed."[27/] Additionally, a task force of the Board's IAG conducted a survey of investors affiliated with investment banks, mutual funds, pension funds, and hedge funds. Seventy percent of the investors surveyed who responded to a question about the desirability of disclosure of work on the audit performed by other audit firms said that they would like to know the degree of involvement in the audit of the firms that are not signing the auditor's report.[28/]

In many audit engagements, especially audits of companies with multiple locations and international operations, the auditor may perform only a portion of the audit. The remainder of the work may be performed by other affiliated accounting firms, non-affiliated accounting firms, and/or other persons not employed by the auditor, for example, consulting firms and individual accountants. The accounting firm issuing the

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[26/] The reproposed amendments to these standards can be found in Appendix 1.

[27/] See *Independent Auditor's Report Survey Results* (March 2010) available at http://www.cfainstitute.org/Survey/independent_auditors_report_survey_results.pdf.

[28/] The IAG task force survey results were discussed in March 2011 in connection with a discussion of the auditor's reporting model. The response rate for the question regarding disclosing the work performed by other audit firms was approximately 67%. Event details and archived webcast for IAG meetings are available at http://pcaobus.org/About/Advisory/Pages/IAGMeetingArchive.aspx.

auditor's report supervises the work of[29] or assumes responsibility for[30] the procedures performed by other participants in the audit. The Board has seen cases in which the extent of participation of other persons ranges from none to substantially all of the work. Although the portion of the audit work performed by other participants in the audit could be significant, under the current requirements, the auditor's report provides no information about the work performed by other participants in the audit. Instead, the auditor's report gives the impression that the work was performed solely by one firm—the signing firm.[31]

In the 2011 Release, the Board proposed a series of amendments to its auditing standards that would have required, among other things, disclosure in the auditor's report about other accounting firms and other persons that participated in the audit.

Commenters supported, to varying degrees, the originally proposed requirement to disclose other participants in the audit. After considering the comment letters, the views expressed in SAG and IAG discussions, the Board's observations from its oversight activities, and relevant empirical research, the Board is reproposing amendments to its auditing standards relating to other participants in the audit but with certain modifications from the 2011 Release. The reproposed amendments would require the auditor to disclose in the auditor's report (1) the name, location, and the extent of participation (as a percentage of the total audit hours) of certain other independent public accounting firms and (2) the location and extent of participation of certain persons not employed by the auditor who took part in the most recent period's audit.

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[29] See Auditing Standard No. 10.

[30] See AU sec. 543.

[31] Under existing AU sec. 543.04, when other auditors participate in the audit, the principal auditor "should not state in his report that part of the audit was made by another auditor because to do so may cause a reader to misinterpret the degree of responsibility being assumed." The reproposed amendments, like the originally proposed amendments, would delete this requirement and add a new requirement that the auditor expressly state that the auditor has assumed responsibility for or supervised the work of the other accounting firms who are disclosed in the auditor's report. In the Board's view, this should avoid any potential misinterpretation of the new requirement.

Specifically, the Board is reproposing to amend the following auditing standards: AU sec. 508, AU sec. 543, and Auditing Standard No. 5.[32/]

III. Discussion of the Reproposed Amendments

This section describes the general requirements of the reproposed amendments and significant changes made to the originally proposed amendments. Appendix 3 of this release discusses in greater detail the requirements of the reproposed amendments, comments received, and the Board's responses to those comments.

A. Disclosure of the Name of the Engagement Partner

The first part of the Board's reproposal would require audit firms to disclose in the auditor's report the name of the engagement partner for the most recent period's audit. The Board is cognizant that, initially at least, disclosure of an engagement partner's name, without more, might provide limited useful information because there may be little publicly available information about such individuals. Some commenters have suggested that over time with the reproposed disclosure requirements in place, a body of information about the engagement partner's history will be developed that, when connected with other data, would be useful to investors and other financial statement users.[33/]

For example, the disclosure of the name of the engagement partner, combined with other information compiled over time, could enable investors and other financial statement users to research the number, size, and nature of companies and industries in which the partner served as engagement partner. Investors and other financial statement users also could determine whether the engagement partner for a particular audit has any U.S. Securities and Exchange Commission ("SEC" or "Commission") or PCAOB disciplinary history. Investors and other financial statement users also could

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32/ The reproposed amendments to these standards can be found in Appendix 2.

33/ Such bodies of information are already being created, for example, in Taiwan where public companies are required to disclose the names of the engagement partners. As described in Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, *Capital Market Consequences of Individual Audit Partners*, Working paper (August 2013) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2321333, the Taiwan Economic Journal collects data that covers all public companies in Taiwan and includes, among other things, the names of the engagement partners, the accounting firm issuing the auditor's report, the regulatory sanction history of the partners, and the audit opinions.

determine the identity of the engagement partner during periods involving a restatement or issuance of an audit opinion with a going concern modification. The reproposed amendments would allow investors and other financial statement users to combine information about the engagement partner with other information regarding the restatement or the going concern modification. Academic research suggests that investors and other financial statement users would respond to the facts and circumstances related to individual restatements or going concern modifications when forming their views regarding the engagement partner.[34/] Investors do not treat all restatements and going concern opinions equally. Based on academic research, they appear to consider other factors in making judgments about restatements and going concern. The Board believes investors would be similarly discerning in considering information about the engagement partner.

Additional information also could become available in readily accessible formats about private litigation in which the individual was a defendant in his or her capacity as an engagement partner. Information also could become available about the engagement partner's education, honors, awards, service on professional and public bodies and publications. In some cases, such information is available today to audit committee members who ask for it and to whom it is given voluntarily (for example, in the course of interviewing a new engagement partner), but it is not readily available to the investing public or other financial statement users. The Board believes that despite the potential limited initial usefulness, public disclosure of the current engagement partner's name is a first and necessary step in the development of the type of robust information sources about engagement partners of public companies that would be useful to investors and other financial statement users.

The Board has heard concerns that public identification of the engagement partner could lead to a rating or "star" system resulting in particular individuals being in high demand to the unfair disadvantage of other equally qualified engagement partners. The Board is aware that, as a consequence of the proposed disclosures, certain individuals may develop public reputations based on their industry specializations, audit history and track records. The Board does not believe that such information would

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[34/] Academic research documents differences in the market impact of restatements and going concern opinions based on the specific facts and circumstances of the events. See, e.g., Susan Scholz, *The Changing Nature and Consequences of Public Company Financial Restatements*, The US Department of the Treasury (2008) available at http://www.treasury.gov/press-center/press-releases/documents/financialrestatements_1997_2006.pdf and Krishnagopal Menon and David D. Williams, *Investor Reaction to Going Concern Audit Reports*, 85 The Accounting Review 2075, 2075-2105 (2010).

necessarily be harmful and could, to the contrary, be useful to investors and other financial statement users.

In recent years, detailed information about the backgrounds, expertise and reputations among clients and peers has become commonly available for other skilled professionals, such as lawyers and physicians, and such information is widely available to consumers of those services. Indeed, it can be argued that the consumers of such services can make more informed decisions with more rather than less knowledge about the qualifications and professional reputations of those whose services they retain. The role of an auditor, including an engagement partner, differs from that of a lawyer or physician, but the underlying principle that consumers of professional services could make better decisions with more information still applies and the Board believes that investors and other financial statement users would benefit from more information about the identity of those who perform audits.

Because the financial statements and the auditor's report are retrospective, disclosure of an engagement partner's identity in the auditor's report provides information only about the most recent period's audit of the financial statements. It does not provide information about the identity of the next period's engagement partner, which may be of most interest to shareholders, such as in ratifying the company's choice of registered firm as its auditor. Nevertheless, such retrospective information provides a basis for analysts, investors, and others to ask a company's management whether last year's engagement partner is continuing on the engagement and, if not, why not.[35/] A change in the engagement partner could prompt further questions about the identity and qualifications of the new engagement partner. Those questions could of course be asked today, but such questions and answers could be informed by additional public information about engagement partners.

Further, concerns have been expressed by some commenters that identification of the engagement partner puts misleading emphasis on a single individual when an audit, particularly a large audit, is in fact a group effort. Such commenters have asserted that the disclosure could confuse rather than enlighten investors. It is true that in most cases an audit is a group effort and that a large audit often involves a very large team. It is also indisputably true that the engagement partner plays a unique role in the audit. The engagement partner has the most direct relationship with the audit committee and senior management and serves as the primary interface between the audit firm and the audit committee and senior management. It is not unusual, in large companies at least,

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[35/] Engagement partners may change for a variety of reasons, including the SEC's requirement for mandatory partner rotation. See Section 203 of the Sarbanes-Oxley Act; Rule 2-01(c)(6) of Regulation S-X, 17 C.F.R. § 210.2-01(c)(6).

for audit committees to interview several candidates for an engagement partner when a new engagement partner is to be chosen because the qualifications and personal characteristics of the engagement partner are viewed by the audit committee and senior management as particularly important. Because of the engagement partner's key role in the audit, the Board believes it is appropriate when shareholders are asked to ratify the company's choice of the registered firm as its auditor to be as well informed as possible about the leader of the team that will conduct the audit. Public identification of the engagement partner would help serve that end.

B. Disclosure About Certain Other Participants in the Audit

The second part of the Board's reproposal would require inclusion of information about certain other participants in the audit in a paragraph that would follow the opinion in the auditor's report itself or in an appendix immediately following the auditor's report that would be referenced in the auditor's report. The information to be disclosed would be:

- With respect to other independent public accounting firms, the name of the firm(s); with respect to persons not employed by the auditor, the phrase "persons not employed by our firm";

- The location of other participants in the audit (the country of headquarters' office location for a firm and the country of residence of a natural person or headquarters' office location of another person that is an entity); and

- The percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit in relation to the total hours in the most recent period's audit ("the percentage of the total hours in the most recent period's audit").

1. Applicability of the Disclosure

The reproposed amendments would require the auditor to disclose information about independent public accounting firms and other persons not employed by the auditor that took part in the audit under arrangements pursuant to either AU sec. 543[36/] or Auditing Standard No. 10, as applicable.

[36/] See AU secs. 543.03-.05.

2. Exclusions from the Disclosure

The reproposed amendments would not require disclosure of information about the following participants in the audit:

- Individuals performing the engagement quality review ("EQR");[37/]
- Persons performing a review pursuant to Appendix K[38/] ("Appendix K review"); and
- Persons employed or engaged by the company who provided direct assistance to the auditor, including:
    - o Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting;[39/] and
    - o Internal auditors who provided direct assistance in the audit of the financial statements.[40/]

These exclusions from the disclosure were retained from the 2011 Release.

The 2011 Release also excluded from the disclosure requirements persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing. After further considering the role of such persons in the audit, the Board is proposing to require, rather than exclude, disclosure in the auditor's report of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing. As discussed below, persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or

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[37/] See Auditing Standard No. 7, *Engagement Quality Review.*

[38/] See Securities and Exchange Commission Practice Section ("SECPS") 1000.45 Appendix K, *SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants.* The Board adopted the requirements of SECPS of the American Institute of Certified Public Accountants as part of its interim standards.

[39/] See paragraph 17 of Auditing Standard No. 5.

[40/] See paragraph .27 of AU sec. 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.

auditing would be disclosed as other persons not employed by the auditor. The Board believes that disclosure about the location and extent of participation of these other participants would be as relevant to investors and other financial statement users as information about any other participants in the audit.

3. Disclosing Names of Certain Other Participants in the Audit

In the 2011 Release, the Board proposed that the names of all other participants whose extent of participation exceeded the disclosure threshold would be included in the auditor's report. After considering comments raised regarding the applicability of the proposed disclosure to alternative practice structures[41/] and the impact on such structures, the Board is proposing to require only the names of other independent public accounting firms participating in the audit to be disclosed. Other persons not employed by the auditor, including persons employed by other entities in alternative practice structures and persons engaged by the auditor with specialized skill or knowledge in areas other than accounting or auditing, would be listed in the disclosure as "persons not employed by our firm," rather than identified by their names, including only the location and extent of participation of those persons.

4. Affiliate Relationships, Including Offshoring Arrangements

In the 2011 Release, the Board proposed that the disclosure of the names of other participants in the audit would include the names of all independent public accounting firms that participated in the audit, which may or may not be affiliated with the accounting firm issuing the auditor's report. In the 2011 Release, the Board indicated that disclosure of any offshored work would not be required to the extent that the offshored work is performed by another office of the same accounting firm, even though that office may be located in a country different from the country where the firm is headquartered. The staff of such office is employed by the accounting firm issuing the auditor's report.

After considering comments, the Board retained the proposed disclosure provisions from the 2011 Release. The Board understands that offshored work may be performed by another office of or by entities that are distinct from, but that may be affiliated with, the registered firm that issues the report. Disclosure of entities that are

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[41/] The Board's standards describe alternative practice structures as "nontraditional structures" whereby a substantial (the nonattest) portion of an accounting firm's practice is conducted under public or private ownership, and the attest portion of the practice is conducted through the accounting firm. ET section 101.16, *101.14—The effect of alternative practice structures on the applicability of independence rules*.

distinct from the firm that issues the report in the audit would be consistent with the overall objective of the amendments the Board is reproposing and is an application of the requirement to disclose other participants in the audit notwithstanding any network affiliation or other relationship.

5. Disclosure Threshold

Similar to the originally proposed amendments, the reproposed amendments would require disclosures about other participants in the audit based on a percentage of the total audit hours in the most recent period's audit. In the 2011 Release, the Board proposed disclosure of information about other participants in the audit if the contribution of those persons exceeded 3% of the total hours in the audit engagement. Because a number of commenters suggested that the 3% threshold was too low and would include information that was not meaningful, the Board is proposing to raise the disclosure threshold to 5%. This approach has the advantages of limiting disclosure to work that is a significant part of the audit, but would allow a user of the information to gain a general understanding of the relative magnitude of each other participant's contribution to the audit.

6. Presentation as a Single Number or as Ranges

In the 2011 Release, the Board originally proposed that the disclosures of the work of other participants in the audit should be stated as a single number. After considering the views of commenters, the Board is reproposing that the disclosure be stated as a single number or within a series of ranges, beginning with narrower ranges—less-than-5% and 5% to less-than-10%—and then in wider ranges—10% to less-than-20%, 20% to less-than-30%, and so on up to a range of 90%-or-more.

In situations in which the extent of participation is less-than-5%, individually for firms or in the aggregate for persons from the same country, the auditor would not be required to disclose the names and locations of other accounting firms or the locations of other persons not employed by the auditor. However, the auditor would be required to group and disclose the aggregate percent of participation of the other accounting firms or other persons not employed by the auditor. Examples of the application of these requirements can be found in Appendix 3, Section II.D.2., *Presentation as a Single Number or as Ranges*, of this release.

7. Discussion

Information about other participants in the audit could become increasingly important as commercial activity becomes ever more global. Many companies with substantial operations outside the United States are audited by U.S.-based, PCAOB-registered public accounting firms.[42/] In such cases, other firms from around the world—some PCAOB-registered, some not, but almost always separately established legal entities likely participated to varying degrees in the audits of such companies.[43/] In fact, the Board's inspection process has revealed that the extent of participation by firms other than the one that signs the auditor's report ranges from none to most of the audit work (or, in extreme cases, substantially all of the work).[44/] To investors in such companies who read today's auditor's report, however, these situations are indistinguishable. In each case, investors see only the name of the signing firm, notwithstanding the possible significance of other firms' roles or their location or identity.

In many situations, the signing firm uses another firm in a foreign country to audit the financial statements of a subsidiary in that foreign country. These arrangements can be an effective and cost-efficient way to audit today's multinational corporations. At the same time the quality of the audit is dependent, to some degree, on the competence and integrity of the participating accounting firms. This is especially true when the signing firm has not reviewed all the work done by the other firm.[45/] The Board

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[42/] See PCAOB's Staff Audit Practice Alert No. 6, *Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm,* (July 12, 2010) (discussing the trend of smaller U.S. firms auditing companies with operations in emerging markets and reminding auditors of their responsibilities in such audits). Audit Practice Alert No. 6 at 2 noted that "in a 27-month period ending March 31, 2010, at least 40 U.S. registered public accounting firms with fewer than five partners and fewer than ten professional staff issued audit reports on financial statements filed with the SEC by companies whose operations were substantially all in the China region." See also PCAOB Research Note No. 2011-P1, *Activity Summary and Audit Implications for Reverse Mergers Involving Companies from the China Region: January 1, 2007 through March 31, 2010* (March 14, 2011) (discussing available information on the role of registered public accounting firms in auditing issuers in the China region).

[43/] Firms that do not prepare or issue any auditor's report or play a substantial role in the preparation or furnishing of an auditor's report need not be registered with the Board. PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms*.

[44/] As previously noted, the accounting firm issuing the auditor's report supervises the work of or assumes responsibility for the procedures performed by other participants in the audit.

[45/] See, e.g., AU sec. 543.

previously conveyed its concern about some practices it has seen in these arrangements.[46/]

Knowing the names, locations, and extent of participation of the accounting firms involved in the audit would allow users of the auditor's report to research publicly available information about these participants. For example, information on the PCAOB website indicates whether a firm is registered with the Board and has been inspected or sanctioned by the Board or whether a firm is located in a country that does not allow PCAOB inspections. The disclosure of the location and extent of participation in the audit of other independent public accounting firms and other persons not employed by the auditor would allow users to understand whether the other participants are headquartered or reside in the auditor's home country or in other jurisdictions, as well as how much of the audit work they performed.

Through its inspections, the Board also has seen circumstances in which disclosure regarding other firms that participate in audits could have been particularly valuable to investors and other financial statement users. For example, through the Board's oversight activities, the Board observed that for some large, U.S.-based financial institutions, a significant portion of the audit work was performed outside the U.S. by a firm other than the firm that signed the auditor's report (typically, a member firm of the same network). In another case, a small U.S.-registered public accounting firm signed an auditor's report for an issuer based in China even though "the audit procedures performed by the other firm [based in China] constituted substantially all of the audit procedures on the issuer's financial statements."[47/] Investors had no practical means of learning these facts, which the Board believes would be useful information.

[46/] See PCAOB's Staff Audit Practice Alert No. 8, *Audit Risk in Certain Emerging Markets*, at 19 (October 3, 2011) ("Through the Board's oversight activities, the Board's staff has observed instances in certain audits of companies in emerging markets in which the auditor did not properly coordinate the audit with another auditor."); see also In the Matter of Clancy and Co., P.L.L.C., Jennifer C. Nipp, CPA, and Judith J. Clancy, CPA, PCAOB Release No. 105-2009-001 (March 31, 2009) (imposing sanctions in a case in which a U.S. firm used a significant amount of audit work performed by a Hong Kong firm without adequately coordinating its work with that of the Hong Kong firm).

[47/] See Staff Audit Practice Alert No. 6, at 3. The Board previously warned investors and auditors of the heightened fraud risk related to audits of companies based in certain emerging markets. See Staff Audit Practice Alert No. 8, at 1 ("Local business practices and cultural norms in emerging markets may differ from those in more

Transparency could discourage practices that would not withstand scrutiny to go unchallenged, at least until they are discovered by regulators. In one case, the Board's inspectors learned, for example, that a registered firm opined on the financial statements of a large, multinational company and reported having performed an audit in accordance with PCAOB standards, even though another firm in another country (albeit, a member firm of the same network) had performed the audit. In other circumstances, PCAOB inspections have revealed that some registered firms have allowed other firms that did not possess the requisite expertise or qualifications to play significant roles in audits of issuers. Disclosure about other firms participating in the audit could expose, and therefore discourage, such practices.

As with disclosure of the name of the engagement partner, over time, information sources likely would develop about the firms that participate in public company audits, such as lists of their public company accounts, size of the accounting firms, disciplinary proceedings and litigation in which they have been involved, and similar matters. Such information likely would be useful to audit committees, investors, and other financial statement users. In addition, over time, these disclosures would provide information that could prompt further useful inquiry about the audit. For example, if the percentage of contribution to the audit by a participating accounting firm or individual either increases or decreases over time (which can be determined since participation is disclosed in ranges), or if it spikes in a particular year, such facts may lead to questions about the underlying reasons.

C. Liability Considerations

A concern voiced frequently by commenters on the Board's 2009 and 2011 Releases is that there could be an increase in the potential liability of persons named in the auditor's report in litigation, particularly securities litigation. Since 2009, the Board has sought and carefully considered commenters' views on the liability effects of its 2009 and 2011 Releases. While the Board has not sought to increase the risk that an engagement partner would be held liable in private litigation, it has recognized and, where it could, consistent with its policy objectives, tried to mitigate this possibility.[48/] The Board takes seriously commenters' concerns about the potential effects of the

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developed markets, and auditors should be alert to the effect of these differences on the risks of material misstatement").

[48/] Most private litigation arising out of audits involves claims against accounting firms, which generally have significantly greater resources to satisfy any judgment than does any individual partner. The Board's reproposed amendments will not reduce an accounting firm's potential liability for deficient audit work.

proposed amendments on auditor liability in private actions. The Board has sought, and now has considered, two rounds of public comment on these issues and has engaged in its own review of the relevant statutory provisions and case law. The Board has also kept the Commission staff advised of its thoughts on these issues, as commenters suggested.

As explained below, the Board believes that any possible increases in a named engagement partner's or participating accounting firm's exposure to liability should be limited and that the potential risk of such an increase would be justified by the potential benefits to investors and other financial statement users of greater transparency.

The Board has identified two main potential sources of liability: Section 11 of the Securities Act of 1933 ("Securities Act"); and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 promulgated under it.

1. Section 11 of the Securities Act

Section 11 imposes liability for material misstatements or omissions in a registration statement, subject to a due diligence defense, on "every accountant . . . who has with his consent been named as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement . . . which purports to have been prepared or certified by him." Section 7 requires issuers to file with the Commission the consent of any accountant who is named as having prepared or certified any part of the registration statement or any valuation or report included in the registration statement filed with the Commission.

Auditors who issue an auditor's report that is filed with the Commission in connection with a registration statement meet the criteria in Section 7 and therefore must consent to inclusion of their names in a document filed with the Commission and be subject to liability under Section 11.[49/] The Board has assumed that engagement partners and participating accounting firms named in an auditor's report would have to consent as well to the inclusion of their names in such an auditor's report filed with, or

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[49/] See Section 11 of the Securities Act; see also 17 C.F.R. § 230.405 ("The term 'certified,' when used in regard to financial statements, means examined or reported upon with an opinion expressed by an independent or certified public accountant."). In most cases, the firm issuing the auditor's report assumes responsibility for the participating accounting firm's work and, as a result, the participating accounting firm does not issue an auditor's report or express any opinion on the issuer's financial statements. When the principal auditor does not assume responsibility for the other firm's work, the other firm's report must be filed with the SEC and a consent is required. The reproposed amendments would not change these requirements.

included by reference in, another document filed under the Securities Act with the Commission.

Requiring engagement partners to consent to inclusion of their names in a document filed with the Commission and be subject to Section 11 liability would not change the performance obligations of engagement partners, the firm issuing the auditor's report, or any other participant in the audit. The firm that issued the report would continue to file a consent and to be subject to liability under Section 11. The fact that the engagement partner would be subject to Section 11 liability, however, might provide investors with some additional comfort about the engagement partner's work on the audit.

In this context, the costs imposed by a consent requirement likely would be relatively low. Because an engagement partner's liability would be, at most, coextensive with that of the firm, adding the engagement partner as a defendant should not increase the amount a court could award to investors. A court might hold the engagement partner liable, jointly and severally with the firm, for those same damages, but in most cases the accounting firm will have greater resources to satisfy a judgment than will any individual partner. In any event, the Board seeks input as to the extent to which individual partners or firms may seek to mitigate any costs arising out of a claim under Section 11.[50/]

Under these circumstances, it seems likely that any increase in overall costs would be small. Such costs as might be incurred would include the administrative costs to obtain and file the additional consents as well as costs inherent in the litigation system. The administrative costs, in particular, should be insignificant. The Board understands that the engagement partner could simply be added to the consent that the accounting firm already provides and that the issuer already files with the Commission.

[50/] The Board notes that Section 14 of the Securities Act provides that "[a]ny condition, stipulation, or provision binding any person acquiring any security to waive compliance with any provision of this title or of the rules and regulations of the Commission shall be void." The Board also notes certain positions by the Commission with respect to Section 11. For example, the Commission has stated that indemnification of directors, officers, and persons controlling the registrant for liabilities incurred pursuant to the Securities Act "is against public policy as expressed in the Act and is therefore unenforceable." Item 510 of Regulation S-K, 17 C.F.R. § 229.510; see also Item 508(g) of Regulation S-K, 17 C.F.R. § 229.508 (requiring a registrant to furnish a brief description of any provision in the underwriting agreement for indemnification by the registrant of the underwriters or their controlling persons against any liability arising under the Securities Act).

Litigation-related costs might be more significant than administrative costs but, in the Board's view, in this context should not be substantial. For one thing, consents from engagement partners in an audit should not increase the number of lawsuits filed, though it might increase the number of defendants in any lawsuit that would have been filed anyway. Because the engagement partner's liability would be based on the same facts that already subject the firm to liability, the filing of engagement partner consents should not make the filing of a Section 11 case any more likely than it is today.

In fact, Section 11 cases against accounting firms are relatively rare. Of the 152 federal securities class action cases filed in 2012, only four alleged a violation of Section 11 by an accounting firm.[51/] In 2011, 188 federal securities class action cases were filed, and thirteen included allegations that an accounting firm violated Section 11.[52/] Of those thirteen, nine involved audits of Chinese companies trading in the U.S. after a reverse merger. Eight of the 176 federal securities class action cases filed in 2010 alleged that an accounting firm violated Section 11.[53/]

The analysis of Section 11 liability risks in the case of participating accounting firms is somewhat different because of the more limited role of the participating accounting firms in the audit. By its terms, Section 7 requires issuers to file the consents of those experts that are "named as having prepared or certified" any part of the registration statement or a report for use in connection with the registration statement. Section 11, in turn, imposes liability on experts, but only "with respect to the statement . . . which purports to have been prepared or certified by him."

The Board assumes that the participating accounting firm would be liable only for those misstatements in the financial statements associated, in some way, with their own audit work—that is, a participating accounting firm should not be liable for misstatements unrelated to its own work. Any uncertainty about whether participating accounting firms could be liable for other misstatements in the financial statements, however, could act as a disincentive to providing the consent and consequently impose additional costs.

Although it has been asserted that participants in the audit would charge more for their work or refuse to participate in the audit if consents were required, commenters did not present any evidence that this would be the case. The requirement to file a consent

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[51/] See Stanford Law School Securities Class Action Clearinghouse available at http://securities.stanford.edu.

[52/] Id.

[53/] Id.

does not change the work the auditor must do. Raising the fee charged by a participant based on an unquantifiable assertion of increased risk is unlikely to be well received either by the accounting firm issuing the auditor's report or the audit committee. Also, for firm network members refusing to participate in an audit because of the consent requirement may be incompatible with obligations as a member of the network. Uncertainty as to the forgoing does not, in the Board's view, justify depriving investors of the benefits of the additional information that would be provided pursuant to the reproposed amendments. Even if costs were to increase the Board believes this information would be valuable.

The Board is reproposing the disclosure requirements because the greater transparency afforded by the required disclosures would, in the Board's view, serve the public interest.

2. Section 10(b) and Rule 10b-5 of the Exchange Act

The second main potential source of liability from the Board's reproposed amendments is under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated under it. The concern is that engagement partners and other participants in the audit could become liable under Section 10(b) and Rule 10b-5 for materially untrue statements deemed to be made by them in the auditor's report.

In its 2011 Release, the Board noted that the Supreme Court, in Janus Capital Group, Inc. v. First Derivative Traders, had decided what it means "[t]o make any untrue statement of a material fact" under Section 10(b) and Rule 10b-5(b).[54/] That case brought some clarity to an area of the law that had, as the 2009 Release had noted, been unclear. Specifically, the Court held that "[f]or purposes of Rule 10b-5, the maker of a statement is the person or entity with ultimate authority over the statement, including its content and whether and how to communicate it."[55/] The Court also explained that "attribution within a statement or implicit from surrounding circumstances

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54/ Janus Capital Group, Inc. v. First Derivative Traders, 131 S.Ct. 2296, 2302 (2011). Pursuant to Rule 10b-5, "it is unlawful for 'any person, directly or indirectly, . . . [t]o make any untrue statement of a material fact' in connection with the purchase or sale of securities." See id. at 2301 (quoting Rule 10b-5). Because there is no private right of action under Section 10(b) against those who aid and abet a securities fraud, Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A., 511 U.S. 164, 191 (1994), to be liable in a Section 10(b) private action for the making of the statement, the actor must be the maker of the statement. See Janus, 131 S.Ct. at 2302.

55/ Id.

is strong evidence that a statement was made by—and only by—the party to whom it is attributed."[56/]

The Board solicited comment on the Section 10(b) liability implications of a disclosure approach, rather than a signature requirement, in light of Janus. Comments filed with the Board on the 2011 Release, after the Janus decision, generally reflected the same concerns expressed in response to the 2009 Release. Many of those who opposed the disclosure requirements suggested that the proposed requirements could increase the engagement partner's risk of personal liability under the Exchange Act. In the view of these commenters, this could raise audit costs, discourage good practitioners from auditing public companies, and encourage more lawsuits, even if they ultimately proved meritless.

Some commenters seemed to acknowledge that, in light of Janus, a disclosure approach, rather than requiring the engagement partner's signature, could mitigate concerns about private liability for fraud under Section 10(b). At the same time, however, these and other commenters noted that it was still uncertain how lower courts will apply the Supreme Court's decision. One such commenter suggested that if the Board adopted a disclosure requirement it should impose a provisional rule that would be in effect for five years to allow the case law to develop. In this commenter's view, the Board could then decide to make the rule permanent once it becomes clear that concerns about liability were unfounded.

Because the future decisions of courts interpreting Janus cannot be known in advance, the Board cannot conclude with certainty whether its approach might increase liability under Section 10(b). The Board does believe, however, that a disclosure rule is unlikely to change the *status quo* regarding private liability for fraud under Section 10(b). The auditor's report would continue to be signed only by the firm. The engagement partner will gain no new authority for, nor make any new statement in, the auditor's report by virtue of the firm's disclosure of his or her name. Because of this, the Board also believes that the better argument is that liability should not be increased under the Janus decision.[57/]

If the reproposed amendments are adopted, the Board would also monitor the rule for some time after it became effective. If the reproposed disclosure requirement

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[56/] See id.

[57/] While disclosure of the engagement partner might, at least in some circuits, make it easier for a plaintiff to plead reliance, the plaintiff would still have to meet all the other elements of Section 10(b) liability, including that the engagement partner was the maker of the statement under the Janus standard.

leads to an increase in litigation against either engagement partners or other participants in the audit that results in negative effects on audits of public companies, the Board can revisit it.

In response to comments, the Board also is making a minor change to the language that it proposed to add to the examples of reports that illustrate the reproposed disclosure requirements. Some commenters expressed concern that courts might misconstrue the statement that the engagement partner is "responsible for the audit" to mean that the engagement partner has "ultimate authority," as that term is used in Janus, over the opinion expressed by the firm. Because the phrase "responsible for the audit" is not necessary to make the disclosure clear, the reproposed amendments do not include this phrase.[58/]

IV. Audits of Brokers and Dealers

Section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act")[59/] gave the Board oversight of the audits of brokers and dealers registered with the SEC. On July 30, 2013, the SEC amended SEC Rule 17a-5 under the Exchange Act, to require, among other things, that audits of brokers' and dealers' financial statements be performed in accordance with the standards of the PCAOB for fiscal years ending on or after June 1, 2014.[60/]

The Board determined that the reproposed amendments would be appropriate for the audits of brokers and dealers for similar reasons as the audits of issuers. Commenters who mentioned brokers and dealers in their comment letters did not raise any specific concerns about the applicability of the amendments to the audits of brokers and dealers. Therefore, the reproposed amendments, if adopted by the Board and approved by the SEC, would be applicable to such audits.

Based on research conducted by the PCAOB's Office of Research and Analysis ("ORA"), ownership of brokers and dealers is primarily private, with individual owners generally being part of the management team. ORA's research indicates that there are

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[58/] The engagement partner remains responsible for the audit and its performance, as described by Auditing Standard No. 10. As explained above, however, the auditor's report is issued and signed by the firm.

[59/] Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010).

[60/] See SEC Exchange Act Release No. 70073, *Broker-Dealer Reports*, (July 30, 2013), 78 Federal Register 51910 (August 21, 2013), available at http://www.sec.gov/rules/reproposed/2013/34-70073.pdf.

no issuers among the approximately 4,230 brokers and dealers that filed annual audited financial statements with the SEC for fiscal periods ended during 2012. Approximately 9% of the 4,230 brokers and dealers are subsidiaries of issuers. The remainder are not owned by issuers.

According to ORA's research, for the population of brokers and dealers that are not subsidiaries of issuers (1) approximately 90% are directly owned by an individual or an entity that owns more than 50% of the broker or dealer and (2) approximately 75% have five or fewer direct owners. A review of the title or status of the brokers' or dealers' direct owners who are individuals suggests that these owners are generally part of the broker's or dealer's management. Disclosure of the engagement partner or other participants may be of limited use to individual owners, but it may be useful to other financial statement users. The Board is seeking comment regarding the applicability of the reproposed amendments to audits of brokers and dealers.

V. Economic Considerations

A. Economic Rationale and Discussion of Benefits

The reproposed amendments are designed to provide investors and other financial statement users with information the Board believes could help them evaluate the quality of individual audits. Although the names of the engagement partner and certain other participants in the audit are known to company management, they are not known to investors and other financial statement users despite their potential value in making economic decisions, including investment decisions to buy, hold, or sell shares. The disclosed information may provide a signal about the quality of the audit of the financial statements that could reduce the level of information asymmetry[61/] between company management and investors.

Under the current regulatory baseline, in which only the firm name is disclosed, investors and other financial statement users are limited in what they know about the participants who actually perform an audit. PCAOB oversight activities show that audit quality varies among partners within the same firm, suggesting that, on its own, firm-level reputation is an imperfect signal of audit quality. Disclosure of the names of the engagement partner and certain other participants in the audit would allow investors and other users of financial statements to supplement the audit firm's name with more granular information when forming an opinion about the nature of the audit. This refinement may be of particular interest to investors and other financial statement users

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61/ Economists often describe information asymmetry as an imbalance, where one party has more or better information than another party.

given that a relatively small number of audit firms conduct a relatively large number of public company audits. The reproposed disclosure requirements would allow investors to distinguish between audits beyond the name of the accounting firms.

The capacity to differentiate between alternative products is a fundamental requirement of competitive markets. Investors, for example, benefit from knowing the quality and reputation of not only the firm, but also of the engagement partner on the audit of the company in which they invest. By having information at this level of granularity – that which corresponds to their investment decision – the market for audit services is made more competitive and efficient because investors are better able to discern between audit firms.

By adding granularity to the information about who performed the audit of a particular company, the differentiated information clarifies distinctions between investment alternatives and can empower investors to pursue their investment strategies more effectively. Over time, this could promote competition in the audit industry and could lead to a more efficient allocation of capital.

The following sections describe the findings of several recent studies that provide empirical evidence related to disclosing the name of the engagement partner and certain other participants in the audit. The Board will review the academic literature again before taking further action on the reproposed amendments to identify any relevant new studies or changes to the working papers referenced below.

1. Research on the Disclosure of the Name of the Engagement Partner

Several studies examined whether engagement partner disclosure requirements affect the prices of securities leading to more efficient markets. Knechel et. al. found "considerable evidence that similar audit reporting failures persist for individual partners over time" and that in Sweden, where engagement partner's names are disclosed, "the market recognizes and prices differences in audit reporting style among engagement partners."[62/] Although much of this analysis was conducted using data on private companies, many of the results continued to hold when the authors separately analyze

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[62/] See W. Robert Knechel, Ann Vanstraelen, and Mikko Zerni, *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions,* Working paper (September 2013) available at https://www.caaa.ca/_files/file.php?fileid=filerSDAxJgThx&filename=file_Knechel__Vanstraelen__Zerni__Does_the_Identity_of_Engagement_Partners_Matter.pdf.

public companies. A similar study conducted by Aobdia et. al.[63/] used data from Taiwan and also found that both debt and equity markets react to the performance characteristics of engagement partners.[64/]

Lambert et. al. used an experimental framework to examine how investors react to disclosure of the engagement partner.[65/] They found that prospective investors were less likely to invest in a company that has been linked via the disclosure of the name of the engagement partner to another company that had to restate its financials. While this could improve capital allocation, the findings were only statistically significant for less experienced investors. The authors went on to evaluate potential implications on audit partner reputation, accountability, incentives, and independence.

Although the primary benefits of the reproposed amendments pertain to the disclosure of the engagement partner and certain other audit participants, the disclosures may also create an incentive for auditors to voluntarily take steps that could result in improved audit quality. Research summarized below leaves open the question of other benefits. The Board is seeking additional comments and data regarding the disclosures' potential effects on accountability.

Carcello and Li[66/] examined the impact of the E.U.'s audit engagement partner signature requirement on audits in the U.K., and found improvements in several

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[63/] See Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, *Capital Market Consequences of Individual Audit Partners*, Working paper (August 2013) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2321333.

[64/] Aobdia et. al. acknowledge that their use of estimates of abnormal accruals as a proxy for engagement partner performance is subject to measurement error. They continue to find evidence that engagement partner histories matter to capital markets when they use regulatory sanctions history as an alternative measure of audit quality.

[65/] See Tamara A. Lambert, Benjamin L. Luippold, and Chad M. Stefaniak, *Audit Partner Disclosure: Potential Implications for Investor Reaction and Auditor Independence*, Working paper (March 2013) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1983482.

[66/] See Joseph V. Carcello and Chan Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom,* 88 The Accounting Review 1511, 1511-1546 (2013).

financial indicators of audit quality,[67/] as well as an increase in audit fees. It is worth highlighting that this study evaluated a policy alternative (signature requirement) that may have a more pronounced effect on accountability than the disclosure requirement being reproposed since the engagement partner's signature goes one step beyond just disclosing the partner's name.

Two studies suggested that disclosure requirements could produce limited or no observable improvement in audit quality. Blay et. al. analyzed data from Norway and were unable to document any statistically significant improvements in audit quality following the E.U. mandate for engagement partners to sign auditors' reports.[68/] In a qualitative analysis, King et. al. argued that only under certain circumstances would increased accountability through engagement partner disclosure lead to better auditor performance—when the public's perception of audit quality is below the actual level of audit quality.[69/] Otherwise, they argued that disclosure could lead to over-auditing.

2. Research on the Disclosure of Certain Other Participants in the Audit

Dee et. al.[70/] examined the impact on financial markets of current annual PCAOB Form 2 disclosures[71/] of other participants in the audit. Using the filing of the Form 2 as

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[67/] Specifically, Carcello and Li found a significant decline in abnormal accruals, a decrease in the propensity to meet an earnings threshold, an increase in the incidence of qualified auditors' reports, and an increase in a measure of earnings informativeness.

[68/] See, e.g., Allen D. Blay, Matthew Notbohm, Caren Schelleman, and Adrian Valencia, *Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate,* Working paper (April 2012) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2044817.

[69/] See Ronald R. King, Shawn M. Davis, and Natalia M. Mintchik, *Mandatory Disclosure of the Engagement Partner's Identity: Potential Benefits and Unintended Consequences*, 26 Accounting Horizons 533, 533-561 (2012).

[70/] See Carol Callaway Dee, Ayalew Lulseged, and Tianming Zhang, *Who Did the Audit? Investor Perceptions and Disclosures of Other Audit Participants in PCAOB Filings*, Working paper (August 2012) available at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx.

[71/] PCAOB Form 2 requires independent public accounting firms that audited no issuers during the applicable reporting period to provide information on each issuer for which they "played a substantial role in the preparation or furnishing of an audit report" (as defined by PCAOB Rule 1001 (p)(i)).

the event date, they investigated "whether the market reacts to the disclosure of other participants in audits." For companies whose audits involved other participants disclosed in Form 2, they find a negative market reaction and a decrease in the information content of earnings surprises post disclosure. The authors concluded that the results of the study suggested "that PCAOB required disclosures by auditors of their significant participation in the audits of issuers provide new information, and investors behave as if they perceive audits in which other auditors participate negatively after the information is disclosed."[72/]

B. Discussion of Costs

Under the reproposed amendments and as discussed above in the liability section, audit firms would likely incur direct compliance costs to obtain consents and to calculate the relative levels of participation of the other participants.[73/] These direct costs are believed to be low due to the relatively simple nature of the tasks. In addition, these costs may decline over time as firms are able to automate these procedures.

The disclosure requirements could result in indirect costs related to liability. The liability section above describes in greater detail the potential sources and likelihood of such costs. As a general matter, the magnitude of damages would not change, but the number of defendants listed in the litigation may increase. As a result, there could be indirect costs to engagement partners and other audit participants related to obtaining representation in cases when they may not have been named before.

Investors may also incur costs to obtain the benefit of the disclosure. These costs—which should be interpreted as a reduction in the net benefits received—could include the cost of collecting disclosed information. Given the general availability of the auditor's report to investors and other users of the disclosed information, the costs to investors are expected to be relatively low. For investors choosing to aggregate disclosed information, the costs would be higher.

[72/] Id. at 31-32. Of course, this negative perception might result from a lack of sufficient information available for investors to draw conclusions about the quality of audits in which other participants are involved. If so, the reproposed amendments could help address this issue by providing more information regarding participants in the audit than is currently available.

[73/] See Section III.C., *Liability Considerations,* for further discussion of liability considerations.

C. Alternatives Considered

Over the past several years, the Board has considered a number of alternative approaches involving the issue of transparency. A threshold question was whether there was, in fact, a need for greater transparency about the participants in the audit and, if so, whether rulemaking was the appropriate vehicle to achieve it. On the question of need, through its outreach efforts, the Board became convinced that there was a strong desire among investors and other financial statement users to have more information about the audit, such as the identity of the individuals and firms that were doing the audit. Providing such information is consistent with the general approach of the U.S. securities laws favoring disclosure of information for investors' use. The degree of usefulness of the information discussed in this release likely would vary among investors and other financial statement users, but the Board believes that, overall, disclosure of the information would be useful and in the public interest.

The Board considered whether an informal approach rather than regulation would be a less costly means of achieving the desired end. The Board's usual vehicles for informal guidance such as staff audit practice alerts, research reports, answers to frequently asked questions, or summary reports under the Board's Rule 4010, did not seem suitable. Accounting firms also did not seem likely to change long established practices voluntarily and had not done so voluntarily in those jurisdictions where engagement partner signature on the auditor's report is now required by law or rule. Also, even if some auditors disclosed more information under a voluntary regime, practices among auditors likely would vary widely. That would defeat one of the Board's goals of achieving more robust and consistent disclosures about the auditors of all U.S. public companies. Thus, the Board did not pursue an informal or voluntary approach.

Once the Board concluded that rulemaking was appropriate in this matter, several alternatives were considered. A central consideration for the Board was to provide the information in a form that would be most easily accessible to investors and other financial statement users. That argued for providing the information in a document that was widely disseminated and commonly read by investors, such as the auditor's report that is included in the annual report filed with the SEC. It also argued for keeping the information in the same location as the audited financial statements. As discussed above, the Board believes disclosure in the auditor's report is the most appropriate alternative; however, other alternatives were considered, including the following:

1. Signing the Auditor's Report

In the 2009 Release, the Board considered a requirement for the engagement partner to sign the auditor's report in his or her own name in addition to the name of the audit firm. A number of commenters supported the signature requirement. However, many commenters opposed it, mainly because including the signature in the auditor's report, in their view, would appear to minimize the role of the audit firm in the audit and could increase the engagement partner's liability. Some commenters believed that this alternative would increase both transparency and the engagement partner's sense of accountability. Other commenters believed that engagement partners already have a strong sense of accountability and that signing their own name on the audit opinion would not impact that. In the Board's view, the reproposed approach includes most of the potential benefits of a signature requirement, while mitigating some of the concerns expressed by commenters.

2. Disclosure in Firms' Annual Reports Filed with the PCAOB on Form 2

All PCAOB registered firms must file a report on Form 2 with the Board at least annually. Form 2 provides basic information about the firm and the firm's issuer-related practice over the most recent 12-month period.[74/] In the 2011 Release, the Board proposed, in addition to the requirement to disclose the name of the engagement partner in the auditor's report, to add to Form 2 a requirement to disclose the name of the engagement partner for each audit required to be reported on the form. As originally proposed, disclosure on Form 2 would supplement more timely disclosures in the auditor's report by providing a convenient mechanism to retrieve information about all of a firm's engagement partners for all of its audits.

Some commenters on the 2011 Release suggested that the names of the engagement partner and the other participants in the audit should be included, if they were to be disclosed at all, not in the auditor's report, but on Form 2 only. This would make the information publicly available but likely would obviate any requirement for a consent by the named parties under Section 7 of the Securities Act and might further lessen any potential risk of liability under Section 10(b) by not including the names in the auditor's report itself.

There are, however, a number of disadvantages to this approach. It would delay the disclosure of information useful to investors and other financial statement users from 3 to 15 months[75/] and would entail some additional costs for accounting firms to develop systems and to compile and report that information. It also would make the information

[74/] Under the *Amendments to Conform PCAOB Rules and Forms to the Dodd-Frank Act and Make Certain Updates and Clarifications*, PCAOB Release 2013-010 (December 4, 2013), the Board has adopted amendments to Form 2 to call for relevant information concerning a firm's audits of brokers and dealers.

[75/] Form 2 must be filed no later than June 30 of each year, PCAOB Rule 2201, *Time for Filing of Annual Report*, and covers the preceding 12-month period from April 1 to March 31; See Form 2, General Instruction 4. Special reports must be filed no later than 30 days after the triggering event. See PCAOB Rule 2203, *Special Reports*.

more difficult to find by investors interested only in the name of the engagement partner for a particular audit, rather than an aggregation of all of the firm's engagement partners for a given year, because they would have to search for it in the midst of other unrelated information in Form 2.

While the Board could expend resources to develop systems to make the information more easily accessible, doing so would not address the disadvantages as to timing or the need for investors to look in several places for information that would be provided by the requirements of this reproposal. Therefore, the Board believes that adopting only a Form 2 requirement would seriously diminish the value of the disclosures. The Board remains interested, however, in commenters' views about whether annual disclosure in Form 2 would be a useful supplement to the more timely disclosures that the reproposed amendments would require.

3. A New, Targeted PCAOB Form

The Board also considered creating a new PCAOB form—to be filed with the Board at the same time or shortly after the auditor's report is filed with the SEC—that would identify the company, the date the auditor's report was issued, the identity of the engagement partner and the other participants in the audit, but only that information. The information would be publicly available through the PCAOB's website. This approach would have the same advantages as Form 2's approach but would coordinate the timing of the disclosure with the release of the auditor's report and would limit the information on each form to a single company. The disadvantage with this approach is that it still would require investors and other financial statement users to search two different places, at two different regulators (SEC and PCAOB) to see both the auditor's report and the disclosures about the participants in the audit. It also would require audit firms to set up new reporting structures and the PCAOB to administer and police the filing of thousands of individual forms annually and to create a system to make the forms easily available.

Because of the effort and costs involved—for investors to locate relevant information and for the firms and the Board to administer the filing of a new form—the Board believes that the selected alternative is both more useful and cost effective.

4. Disclosure of the Required Information Either in the Audit Committee Report or in the Auditor's Report

Under this approach, the Board would require disclosures to be made in the auditor's report itself, unless the audit committee agreed to do so in the audit committee's report filed with the proxy statement. This approach also poses several problems, however. There would not be a uniform source for the information among companies. In some cases, the information would be in the proxy statement, in others, in the auditor's report included in the annual report. Investors and other financial statement users would not readily know where the information was for any particular company. Another consideration is that the circumstance could arise where the auditor does not include the required disclosures in the auditor's report anticipating that the audit committee will include it in its report and, for whatever reason, the audit committee fails to do so. This would require the auditor to amend its auditor's report. Also, the timing of the filing of the proxy statement would pose the same problem as with the Form 2 approach. The proxy statement is almost always filed later than the auditor's report which must be included in the annual report filed with the SEC. Altogether this approach appeared to present risks of information dispersion and lack of uniformity of presentation that would defeat one of the Board's cardinal objectives in this project: ease of use.

VI. Considerations for Audits of Emerging Growth Companies

A. Background

Pursuant to Section 104 of the JOBS Act, any rules adopted by the Board subsequent to April 5, 2012, do not apply to the audits of EGCs (as defined in Section 3(a)(80) of the Exchange Act) unless the SEC "determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors, and whether the action will promote efficiency, competition, and capital formation."[76/] As a result of the JOBS Act, the amendments to PCAOB standards the Board is reproposing, if adopted by the Board, would be subject to a separate determination by the SEC regarding their applicability to audits of EGCs.

The PCAOB has been monitoring implementation of the JOBS Act in order to understand the characteristics of EGCs[77/] and inform the Board's considerations

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[76/] Pub. L. No. 112-106 (April 5, 2012). See Section 103(a)(3)(C) of the Sarbanes-Oxley Act, (15 U.S.C. §7213(a)(3)), as added by Section 104 of the JOBS Act.

[77/] In general terms, an issuer qualifies as an EGC if it has total annual gross revenue of less than $1 billion during its most recently completed fiscal year (and its first sale of common equity securities pursuant to an effective Securities Act registration statement did not occur on or before December 8, 2011). See JOBS Act Section 101(a), (b), and (d). Once an issuer is an EGC, the issuer retains its EGC status until the earliest of: (1) the first year after it has total annual gross revenue of $1 billion or more (as indexed for inflation every five years by the SEC); (2) the end of the fiscal year after the fifth anniversary of its first sale of common equity securities under an effective Securities Act registration statement; (3) the date on which the company issues more than $1 billion in non-convertible debt during the prior three-year period; or (4) the date regarding whether it should request that the SEC apply the reproposed amendments to audits of EGCs, if adopted. To assist commenters, the Board is providing the following information regarding EGCs that it has compiled from public sources.[78/]

B. Characteristics of Self-Identified EGCs

As of October 1, 2013, based on the PCAOB's research, 1,144 SEC registrants have identified themselves as EGCs in SEC filings.

These companies operate in diverse industries. The five most common Standard Industrial Classification ("SIC") codes applicable to these companies are: blank check companies; pharmaceutical preparations; real estate investment trusts; prepackaged software services; and computer processing/data preparations services.

Approximately 22% of the EGCs identified themselves in registration statements and were not previously reporting under the Exchange Act as of October 1, 2013. Approximately 61% of the companies that have identified themselves as EGCs began reporting under the Exchange Act in 2012 or later. The remaining 17% of these companies have been reporting under the Exchange Act since 2011 or earlier. Accordingly, a majority of the companies that have identified themselves as EGCs have begun reporting information under the securities laws since 2012.

Approximately 64% of the companies that have identified themselves as EGCs and filed an Exchange Act filing with information on smaller reporting company status indicated that they were smaller reporting companies.[79/]

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on which it is deemed to be a "large accelerated filer" under the Exchange Act (generally, a company that has been public for at least one year and has an equity float of at least $700 million). See Section 3(a)(80) of the Exchange Act.

[78/] To obtain data regarding EGCs, the PCAOB's Office of Research and Analysis has reviewed registration statements and Exchange Act reports filed with the SEC with filing dates between April 5, 2012, and October 1, 2013, for disclosures by companies related to their EGC status. Companies with filings indicating they are no longer EGCs are not included in this analysis. Any filings subsequent to October 1, 2013 are not included in this analysis. The PCAOB has not validated these companies' self-identification as EGCs. The information presented also does not include data for companies that have filed confidential registration statements and have not subsequently made a public filing.

[79/] The SEC amended its smaller reporting company rules in *Smaller Reporting Company Regulatory Relief and Simplification*, Securities Act Release No.

Audited financial statements were available for nearly all of the companies that have identified themselves as EGCs.[80/] For those companies for which audited financial statements were available and based on information included in the most recent audited financial statements filed as of October 1, 2013:

- The reported assets ranged from zero to approximately $18.2 billion. The average and median reported assets were approximately $182.4 million and $0.3 million, respectively.[81/]

- The reported revenue ranged from zero to approximately $962.9 million. The average and median reported revenue were approximately $60.2 million and $2 thousand, respectively.

- The average and median reported assets among companies that reported revenue greater than zero were approximately $360.8 million and $69.3 million, respectively. The average and median reported revenue among these companies that reported revenue greater than zero were approximately $118.7 million and $22.1 million, respectively.

8876 (December 19, 2007). Generally, companies qualify to be smaller reporting companies and, therefore, have scaled disclosure requirements if they have less than $75 million in public equity float. Companies without a calculable public equity float will qualify if their revenues were below $50 million in the previous year.

80/ Audited financial statements were available for 1,134 of the 1,144 self-identified EGCs. Audited financial statements were not available for some EGCs that have filed registration statements that have not been declared effective.

81/ For purposes of comparison, the PCAOB compared the data compiled with respect to the population of companies that identified themselves as EGCs with companies listed in the Russell 3000 Index in order to compare the EGC population with the broader issuer population. The Russell 3000 was chosen for comparative purposes because it is intended to measure the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market (as marketed on the Russell website). The average and median reported assets of issuers in the Russell 3000 were approximately $12.1 billion and approximately $1.6 billion, respectively. The average and median reported revenue from the most recent audited financial statements filed as of October 1, 2013 of issuers in the Russell 3000 were approximately $4.6 billion and $725.8 million, respectively.

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- Approximately 48% identified themselves as "development stage entities" in their financial statements.[82/]

- Approximately 55% had an explanatory paragraph included in the auditor's report on their most recent audited financial statements describing that there is substantial doubt about the company's ability to continue as a going concern.[83/]

- Approximately 38% were audited by firms that are annually inspected by the PCAOB (that is, firms that have issued auditor's reports for more than 100 public company audit clients in a given year) or are affiliates of annually inspected firms. Approximately 62% were audited by triennially inspected firms (that is, firms that have issued auditor's reports for 100 or fewer public company audit clients in a given year) that are not affiliates of annually inspected firms.

- Approximately 4% were audited by firms (1) whose names contain the full name of an individual that is in a leadership role at the firm and (2) have disclosed only one certified public accountant.[84/]

- Approximately 14% and 18% of the EGCs reported segment sales and assets,[85/] respectively, in geographic areas outside the country or region

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82/ According to the Financial Accounting Standards Board standards ("FASB"), development stage entities are entities devoting substantially all of their efforts to establishing a new business and for which either of the following conditions exists: (1) planned principal operations have not commenced or (2) planned principal operations have commenced, but there has been no significant revenue from operations. See FASB Accounting Standards Codification, Subtopic 915-10, Development Stage Entities—Overall.

83/ Approximately 1% of the population of companies in the Russell 3000 Index have an explanatory paragraph describing that there is substantial doubt about the company's ability to continue as a going concern.

84/ This data is based on firms' annual disclosures on PCAOB Form 2. No companies in the Russell 3000 Index were audited by such firms.

85/ See FASB Accounting Standards Codification, Topic 280, Segment Reporting.

of the accounting firm issuing the auditor's report.[86/] For these EGCs, on average, 59% and 76% of the reported segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.[87/]

C. Applicability of the Reproposed Amendments for Audits of EGCs

Based on the data outlined in Section VI.B., *Characteristics of Self-Identified EGCs*, above, EGCs generally appear to be smaller and newer public companies. Overall, there is less information available in the market about smaller and newer companies than there is about larger and more established companies. The communication of the name of the engagement partner and information about other participants in the audit could assist the market in assessing some risks associated with the audit and valuing securities, which could make capital allocation more efficient. Disclosures about audits of EGCs could produce these effects no less than disclosures about audits of companies that are not EGCs.[88/]

Some EGCs operate in geographic segments that are outside the country or region of the accounting firm issuing the auditor's report. This characteristic may suggest involvement of participants in the audit other than the accounting firm issuing the auditor's report. The data above indicates that the percentage of EGCs reporting segment sales (14%) and assets (18%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is smaller as compared to companies in the Russell 3000 Index (51% and 37%, respectively). However, for these EGCs the average percentage of reported segment sales (59%) and assets (76%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is significantly higher than the analogous average segment sales (41%) and assets (37%) reported by companies in the Russell 3000 Index. Therefore,

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86/ Approximately 51% and 37% of the population of companies in the Russell 3000 Index reported segment sales and assets, respectively, in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

87/ For the population of companies in the Russell 3000 Index that reported segment sales or assets in geographic areas outside the country or region of the accounting firm issuing the auditor's report, approximately 41% and 37% of those segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

88/ This assumes that the market does not view information provided by the disclosure in audits of EGCs as less valuable than information in audits of issuers that are not EGCs. The Board is aware of no reason for such a distinction.

providing the reproposed disclosures regarding other participants in the audit may be as relevant to EGC investors and other financial statement users as it would be to investors in larger and more established companies.

As noted in the data above, some of the EGCs were audited by firms having only one certified public accountant whose full name is included in the firm's name. For those EGCs, the name of the audit engagement partner is already disclosed, in practice, in the auditor's report through the required signature of the auditor's firm. No companies in the Russell 3000 Index are audited by such firms.

The EGC data above also indicates that for 55% of the EGCs, the auditor's report on the most recent audited financial statements includes an explanatory paragraph describing that there is substantial doubt about the company's ability to continue as a going concern, as compared to 1% for the population of companies in the Russell 3000 Index. This suggests that, for the majority of EGCs, the auditor is modifying the auditor's report to indicate there is substantial doubt about the company's ability to continue as a going concern. Determining the identity of the engagement partner ultimately responsible for the going concern evaluation could be a factor that investors and other financial statement users consider in connection with the facts and circumstances relevant to a going concern modification of the auditor's report.

Exempting EGCs from the reproposed amendments might put investors in EGCs at an informational disadvantage compared to investors in larger and more established companies that would be subject to the reproposed amendments. For example, if the reproposed amendments do not apply to audits of EGCs, but are applicable to audits of larger and more established companies, the potential disparity between the two groups of companies in the amount and quality of public information available for investment decision making could increase.

Matters pertaining to all costs, discussed earlier in this release, are equally applicable to all companies, including EGCs. As previously described, the reproposed disclosure requirements are not anticipated to be costly to implement for the accounting firms that audit EGCs or other accounting firms. The Board has posed questions and seeks input on whether these reproposed amendments should apply to the audits of EGCs.

VII. Questions for Commenters

1. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

   a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

   b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

6. Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

7. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

9. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

10. What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

13. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

14. What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

15. Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why

not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

18. Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

    a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?

    b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

19. Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

20. Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

    a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

23. Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

24. Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

25. Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

VIII. Appendices

The Board's reproposal includes this Release ("release") and the following appendices:

- Appendix 1 contains reproposed amendments to PCAOB auditing standards for disclosure of the engagement partner.

- Appendix 2 contains reproposed amendments to PCAOB auditing standards for disclosure of other accounting firms and other persons not employed by the auditor.

- Appendix 3 discusses in greater detail the requirements of the reproposed amendments, comments received, and the Board's responses to those comments.

IX. Opportunity for Public Comment

Interested persons are encouraged to submit their views to the Board. Written comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to comments@pcaobus.org or through the Board's website at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 29 in the subject or reference line and should be received by the Board no later than 5:00 p.m. EST on February 3, 2014. The Board will consider comments received.

On the 4th day of December, in the year 2013, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 4, 2013

APPENDIX 1

Reproposed Amendments to PCAOB Auditing Standards for Disclosure of the Engagement Partner[1/]

AU sec. 508, "Reports on Audited Financial Statements"

SAS No. 58, "Reports on Audited Financial Statements" (AU sec. 508, "Reports on Audited Financial Statements"), as amended, is amended as follows:

a. In paragraph .08, subparagraph c-1 is added, as follows:

The name of the engagement partner[4A] on the most recent period's audit.

> Note: In cases in which the financial statements for all periods presented were audited during one audit engagement (for example, in an initial public offering or re-audit of multiple periods), the name of the engagement partner on the audits for all periods presented should be disclosed.
>
> Note: In cases in which an auditor's report is dual dated and the engagement partner is changed after the original date of the report, the names of both engagement partners should be disclosed.

[4A] The term "engagement partner" has the same meaning as the term used in Auditing Standard No. 9, *Audit Planning*.

[1/] PCAOB Release No. 2013-005, *Proposed Auditing Standards—The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and related amendments to PCAOB Standards* (August 13, 2013), includes proposed amendments that would supersede, amend, or delete paragraphs for which amendments are included in the reproposed amendments. If, prior to the conclusion of this rulemaking, the Board has adopted amendments that affect the amendments reproposed in this release, the Board may make conforming changes to the reproposed amendments.

b. In paragraph .08, at the end of the first paragraph of the example report on financial statements covering a single year, the following new sentence is added:

The engagement partner on the audit resulting in this report was [name].

c. In paragraph .08, at the end of the first paragraph of the example report on comparative financial statements, the following new sentences are added:

The engagement partner on the audit for the [period] ended [date] was [name]. [*When the financial statements for all periods presented were audited during one audit engagement*: The engagement partner on the audits resulting in this report was [name]. *When the report is dual dated and the firm changes the engagement partner after the original date of the report*: The engagement partner on the audit for the period ended December 31, 20X2 was Partner A, except for Note Z, for which the engagement partner was Partner B.]

d. In paragraph .13, between the third and fourth sentences of the first paragraph of the example report indicating a division of responsibility, the following new sentence is inserted:

The engagement partner on the audit for the [period] ended [date] was [name].

e. In paragraph .34, at the end of the first paragraph of the example report on the balance sheet only, the following new sentence is added:

The engagement partner on the audit resulting in this report was [name].

f. In paragraph .44, at the end of the first paragraph of the example of a qualified report, the following new sentence is added:

The engagement partner on the audit for the [period] ended [date] was [name].

g. In paragraph .63, at the end of the first paragraph of the example of a report disclaiming an opinion, the following new sentence is added:

The engagement partner on the engagement for the [period] ended [date] was [name].

h. In paragraph .74, between the third and fourth sentences of the first paragraph of the example of a successor auditor's report, the following new sentence is inserted:

The engagement partner on the audit resulting in this report was [name].

AU sec. 9508, "Reports on Audited Financial Statements: Auditing Interpretations of Section 508"

AU sec. 9508, "Reports on Audited Financial Statements: Auditing Interpretations of Section 508," as amended, is amended as follows:

a. In paragraph .36, at the end of the first paragraph of the example *Report on Single Year Financial Statements in Year of Adoption of Liquidation Basis*, the following new sentence is added:

The engagement partner on the audit resulting in this report was [name].

b. In paragraph .36, at the end of the first paragraph of the example *Report on Comparative Financial Statements in Year of Adoption of Liquidation Basis*, the following new sentence is added:

The engagement partner on the audit for the [period] ended [date] was [name].

AU sec. 543, "Part of Audit Performed by Other Independent Auditors"

SAS No. 1, "Codification of Auditing Standards and Procedures," section 543 "Part of Audit Performed by Other Independent Auditors" (AU sec. 543, "Part of Audit Performed by Other Independent Auditors"), as amended, is amended as follows:

In paragraph .09, between the third and fourth sentences of the first paragraph of the example report indicating a division of responsibility, the following new sentence is inserted:

The engagement partner on the audit resulting in this report was [name].

Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*

Auditing Standard No. 1 is amended as follows:

In paragraph 1 of the Appendix, at the end of the first paragraph of the illustrative report on an audit of financial statements, the following new sentence is added:

The engagement partner on the audit for the [period] ended [date] was [name].

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*

Auditing Standard No. 5 is amended as follows:

a. In paragraph 85, subparagraph d-1 is added, as follows:

The name of the engagement partner[18A/] on the most recent period's audit of internal control over financial reporting.

[18A] The term "engagement partner" has the same meaning as the term used in Auditing Standard No. 9, *Audit Planning*.

b. In paragraph 87, at the end of the first paragraph of the example report, the following new sentences are added:

The engagement partner on the audit for the [period] ended [date] was [name]. [*When the financial statements for all periods presented were audited during one audit engagement*: The engagement partner on the audit(s) resulting in this report was [name]. *When the report is dual dated and the firm changes the engagement partner after the original date of the report*: The engagement partner on the audit for the period ended December 31, 20X8 was Partner A, except for Note X, for which the engagement partner was Partner B.

APPENDIX 2

Reproposed Amendments to PCAOB Auditing Standards for Disclosure of Other Accounting Firms and Other Persons Not Employed by the Auditor[1/]

AU sec. 508, *Reports on Audited Financial Statements*

SAS No. 58, "Reports on Audited Financial Statements" (AU sec. 508, "Reports on Audited Financial Statements"), as amended, is amended as follows:

a. In subparagraph .11a, the text is replaced with the following:

The auditor's opinion is based, in part, on the report of another auditor, and the auditor makes reference to the audit of the other auditor pursuant to PCAOB standards (paragraphs .12 and .13).

b. In paragraph .11, subparagraph a-1 is added, as follows:

The auditor assumes responsibility, pursuant to AU sec. 543, for or is required to supervise, pursuant to Auditing Standard No. 10, *Supervision of the Audit Engagement*, the work of other independent public accounting firms or persons[10A] not employed by the auditor in the most recent reporting period's audit (paragraphs .14A through .14F).

[10A] PCAOB Rule 1001(p)(iv) defines the term "person" to mean any natural person or any business, legal or governmental entity, or association.

[1/] PCAOB Release No. 2013-005, *Proposed Auditing Standards—The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and related amendments to PCAOB Standards* (August 13, 2013), includes proposed amendments that would supersede, amend, or delete paragraphs for which amendments are included in the reproposed amendments. If, prior to the conclusion of this rulemaking, the Board has adopted amendments that affect the amendments reproposed in this release, the Board may make conforming changes to the reproposed amendments.

c. In paragraph .12, delete the title "*Part of Audit Performed by Other Independent Auditors*" from the parentheses.

d. In paragraph .13, in the example of a report indicating a division of responsibility,

- The last sentence of the first paragraph is replaced with the following:

  Those statements were audited by [name of other auditors and country of their headquarters' office location] whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of [name of other auditors].

- The last sentence of the second paragraph is replaced with the following:

  We believe that our audit and the report of [name of other auditors] provide a reasonable basis for our opinion.

- In the first sentence of the third paragraph, the phrase "other auditors" is replaced with "[name of other auditors]"

e. The following section header is inserted after the amended paragraph .13:

Auditor Assumes Responsibility for or is Required to Supervise the Work of Other Independent Public Accounting Firms or Persons Not Employed by the Auditor in the Most Recent Period's Audit

f. Paragraph .14A is inserted, as follows:

When another independent public accounting firm performs an audit of the financial statements of one or more of a company's subsidiaries, divisions, branches, components, or investments, or another independent public accounting firm or person not employed by the auditor perform audit procedures in the most recent period's audit, other than an independent public accounting firm whose audit is referred to pursuant to PCAOB standards and except as provided by paragraph .14B, the following items should be disclosed in the auditor's report through the addition of an explanatory paragraph, or a reference to an appendix that includes the required disclosure, following the opinion paragraph and any other explanatory paragraphs:

(1) With respect to other firms, the name of the firm(s); with respect to persons not employed by the auditor, the phrase "persons not employed by our firm," except as provided by paragraph .14D;

(2) The country(ies) of headquarters' office location of such firm(s) and the country(ies) of residence of natural persons or headquarters' office location of person(s) that are entities, except as provided by paragraph .14D;

(3) The percentage of the hours attributable to audits or audit procedures performed by such firm(s) or person(s) in relation to the total hours as of the date of the auditor's report in the most recent period's audit of the financial statements and, when applicable, internal control over financial reporting, which include the hours incurred in performing reviews pursuant to AU sec. 722, *Interim Financial Information*, (paragraphs .14C and .14D); and

> Note: In cases in which the financial statements for all periods presented were audited during one audit engagement (for example, in an initial public offering or re-audit multiple periods), the disclosure should state the percentage of audit hours attributable to the audits or audit procedures performed by such firms and such persons in relation to the total audit hours for all periods presented.

> Note: In cases in which an auditor's report is dual dated, the disclosure should be as of the second date of the auditor's report.

(4) A statement that the auditor is responsible for the audits or audit procedures performed by such firm(s) and persons and has supervised or performed procedures to assume responsibility for the work in accordance with PCAOB standards.

g. Paragraph .14B is inserted, as follows:

Excluded from the disclosures required by paragraph .14A are:

(1) The individual who performed the engagement quality review ("EQR");

(2) The person who performed the review pursuant to Securities and Exchange Commission Practice Section ("SECPS") 1000.45 Appendix K ("Appendix K review");

(3) Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee who provided direct assistance in the audit of internal control over financial reporting; and

(4) Internal auditors who provided direct assistance in the audit of the financial statements.

h. Paragraph .14C is inserted, as follows:

When the aggregate extent of participation of all other persons from the same country not employed by the auditor or the individual extent of participation of other independent public accounting firms is 5% or more of the total hours in the most recent period's audit, the percentage of hours attributable to audits or audit procedures performed by such persons and firms should be disclosed as a single number, or by listing such persons and firms within the applicable range(s) as follows: 5% to less-than-10%, 10% to less-than-20%, 20% to less-than-30%, 30% to less-than-40%, 40% to less-than-50%, 50% to less-than-60%, 60% to less-than-70%, 70% to less-than-80%, 80% to less-than-90%, and 90%-or-more.

i. Paragraph .14D is inserted, as follows:

When the aggregate extent of participation of all other persons from the same country not employed by the auditor or the individual extent of participation of other independent public accounting firms is less than 5% of the total hours in the most recent period's audit, the other persons or firms should be disclosed as a group titled "other persons not employed by our firm" or "other firms," respectively. In addition, the following items should be included in the disclosure:

(1) A statement that the aggregate extent of participation of such persons or the individual extent of participation of such firms is less than 5%;

(2) The aggregate extent of participation of each group—as a single number, in one of the ranges described in paragraph .14C, or in the range of less-than-5%, as applicable; and

(3) The number of firms in the group titled "other firms" or the number of countries in the group titled "other persons not employed by our firm."

Note: When other persons or firms are disclosed as a group in accordance with this paragraph, disclosure of a country of their headquarters' office location or residence is not required as such persons and firms are not individually identified.

j. Paragraph .14E is inserted, as follows:

Examples of the explanatory paragraph described in paragraph .14A follow:

An example of the explanatory paragraph for situations in which another independent public accounting firm performs certain audit procedures—In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, ABC Audit Firm (country of headquarters' office location) performed certain audit procedures. We are responsible for the audit procedures performed by ABC Audit Firm and, accordingly, have supervised its work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by ABC Audit Firm in our audit was X%.

An example of the explanatory paragraph for situations in which another independent public accounting firm performs an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments—In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, ABC Audit Firm (country of headquarters' office location) performed an audit of the financial statements of one of XYZ Company's subsidiaries. We are responsible for the audit performed by ABC Audit Firm, insofar as that audit relates to our expression of an opinion on the financial statements taken as a whole and, accordingly, have performed procedures to assume responsibility for its work in accordance with PCAOB standards. The portion of the total audit hours attributable to the audit performed by ABC Audit Firm in our audit was X%.

An example of the explanatory paragraph for situations in which persons not employed by the auditor perform certain audit procedures—In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, persons ([country of residence or headquarters' office location]) not employed by our firm performed certain audit procedures. We are responsible for the audit procedures performed by these persons and, accordingly, have supervised their work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by these persons in our audit was X%.

k. Paragraph .14F is inserted, as follows:

An example of the explanatory paragraph using an appendix described in paragraph .14A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, the other independent public accounting firms listed in the Appendix to this report performed [*choose applicable*: audits of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or certain audit procedures], and persons not employed by our firm listed in the Appendix performed certain audit procedures. We are responsible for the audits and audit procedures performed by these other independent public accounting firms and persons not employed by our firm and, accordingly, have supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards.

APPENDIX

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, the other independent public accounting firms listed below performed [*choose applicable*: audits of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or certain audit procedures], and persons not employed by our firm listed below performed certain audit procedures. The portion of the total audit hours attributable to audits and audit procedures performed by these firms and persons in our audit follows:

Other participants in the audit and their extent of participation

30% to less than 40%:
- ABC Audit Firm (country of headquarters' office location)

10% to less than 20%:
- Persons (country of residence or headquarters' office location) not employed by our firm
- JKL Audit Firm (country of headquarters' office location)

5% to less than 10%:
- Persons (country of residence or headquarters' office location) not employed by our firm

Other participants whose individual or aggregate extent of participation was less than 5%:

- [Fill in number] other firms, whose individual extent of participation was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of [fill in the appropriate range, as described in paragraph .14D].

- Other persons from [fill in number] countries not employed by our firm, whose aggregate extent of participation by country was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of [fill in the applicable range, as described in paragraph .14D].

AU sec. 543, "Part of Audit Performed by Other Independent Auditors"

SAS No. 1, "Codification of Auditing Standards and Procedures" section 543, "Part of Audit Performed by Other Independent Auditors" (AU sec. 543, "Part of Audit Performed by Other Independent Auditors"), as amended, is amended as follows:

a. In paragraph .04, the last sentence is deleted.

b. The following note is added after paragraph .04:

Note: When the principal auditor assumes responsibility for the work of the other auditor, paragraph .14A of AU sec. 508, *Reports on Audited*

Financial Statements, requires certain disclosures regarding the other auditor.

c. In paragraph .07:

- The following sentence is added after the third sentence:

  The report should also disclose the name of the other auditor and the country of headquarters' office location of the other auditor.

- The last sentence is deleted.

- Footnote 3 is deleted.

d. In paragraph .09:

- The last sentence of the first paragraph of the example report is replaced with the following:

  Those statements were audited by [name of other auditors and country of headquarters' office location] whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of [name of other auditors].

- The last sentence of the second paragraph of the example report is replaced with the following:

  We believe that our audit and the report of [name of other auditors] provide a reasonable basis for our opinion.

- In the first sentence of the third paragraph of the example report, the phrase "the other auditors" is replaced with "[name of other auditors]."

<u>Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*</u>

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, is amended, as follows:

a. In paragraph C1, subparagraph c-1 is added, as follows:

The auditor assumes responsibility, pursuant to AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, for or is required to supervise, pursuant to Auditing Standard No. 10, *Supervision of the Audit Engagement*, the work of other independent public accounting firms or persons* not employed by the auditor in the most recent period's audit of the company's internal control over financial reporting.

* PCAOB Rule 1001(p)(iv) defines the term "person" to mean any natural person or any business, legal or governmental entity, or association.

b. Paragraph C11-A is added, as follows:

The Auditor Assumes Responsibility for or is Required to Supervise the Work of Other Independent Public Accounting Firms or Persons Not Employed by the Auditor in the Most Recent Period's Audit of the Company's Internal Control Over Financial Reporting.

When another independent public accounting firm performs an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or when another independent public accounting firm or a person not employed by the auditor performs audit procedures in the most recent period's audit of the company's internal control over financial reporting and the auditor assumes responsibility for or supervises the work, the auditor should include the disclosures described in paragraph .14A of AU sec. 508, *Reports on Audited Financial Statements*, regarding the other independent public accounting firm or person not employed by the auditor in the auditor's report on the audit of internal control over financial reporting. If the auditor chooses to issue a separate report on internal control over financial reporting, the explanatory paragraph described by AU sec. 508.14A should follow the paragraph required by paragraph 88 in each separate report. Further, in each separate report, these explanatory paragraphs should include a reference to the same appendix, if an appendix is used pursuant to AU sec. 508.14A.

APPENDIX 3

Additional Discussion and the Board's Consideration of Comments on the 2011 Release

The release describes the Board's principal considerations for the reproposed amendments to certain PCAOB auditing standards, which are presented in Appendices 1 and 2.

On October 11, 2011, the Board proposed amendments to the Board's auditing standards that would have required disclosure of the name of the engagement partner in the auditor's report and disclosure in the auditor's report about other participants in the audit (the "2011 Release").[1/] Additionally, comments were made on the originally proposed amendments during meetings of the Board's Standing Advisory Group ("SAG") and Investor Advisory Group ("IAG").[2/]

This Appendix provides additional discussion of the Board's responses to comments raised by commenters on the originally proposed amendments, as well as the basis for the Board's preliminary views regarding certain requirements.

[1/] See *Improving the Transparency of Audits, Proposed Amendments to PCAOB Auditing Standards and Form 2,* PCAOB Release 2011-007 (October 11, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf.

[2/] The SAG discussed the 2011 Release at its meetings in November 2011 and May 2013. Transcripts of the relevant portions of the discussion are available on the Board's website at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx. Archived webcasts are also available on the Board's website at http://pcaobus.org/News/Webcasts/Pages/11092011_SAGMeeting.aspx and http://pcaobus.org/News/Webcasts/Pages/05152013_SAG.aspx.

The IAG also discussed this at its May 4, 2010 and October 16, 2013 meetings. See the summary of the May 4, 2010 meeting available at http://pcaobus.org/News/Events/Pages/05042010_IAGMeeting.aspx and IAG meeting details and webcast for the October 16, 2013 meeting available at http://pcaobus.org/News/Webcasts/Pages/10162013_IAGMeeting.aspx.

I. Board's Consideration of Comments on the 2011 Release to Require Disclosure of the Engagement Partner

A. Providing Useful Information to Investors and Other Financial Statement Users

The 2011 Release sought comments on whether additional transparency about the identity of the person responsible for the engagement would provide investors and other financial statement users with useful information. A number of varying views were expressed regarding the usefulness of the proposed disclosure.

Commenters who supported the proposed disclosure generally believed that disclosing the engagement partner's name in the auditor's report would provide investors and other financial statement users with useful information. For example, one commenter stated that, while signing the auditor's report with the engagement partner's name "would be responsive to the information needs of investors," they "would not object to a final standard requiring disclosure of the engagement partner's name, rather than signature, in the audit report" because it would have most of the same potential benefits as a signature requirement.[3/]

Further, a group of academics wrote in a comment letter that, "based on existing research, there is reason to believe that disclosure of the engagement partner's name in the auditor's report would enhance investor protection" and that "investors may find this information useful." The letter also stated that "requiring disclosure would provide market participants with potentially useful information."[4/] An association of accountants in its letter stated that it "fully supports the aim of improving transparency of audits and believes that including the name and the signature of the engagement partner responsible for the audit will contribute to achieve this."[5/]

[3/] See letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Office of the Secretary, PCAOB (January 5, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/022b_CII.pdf.

[4/] See letter from Auditing Standards Committee, Auditing Section—American Accounting Association, to Office of the Secretary, Public Company Accounting Oversight Board (January 9, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/024b_AAA.pdf.

[5/] See letter from Philip Johnson, President, Federation of European Accountants, to Office of the Secretary, PCAOB (December 7, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/009b_FEE.pdf.

A variety of commenters, however, questioned the usefulness of providing users of the auditor's report with the engagement partner's name. Some commenters noted that the audit committee, which selects the auditor, already has information about the engagement partner's identity and qualifications. For example, one commenter stated that, "[t]ypically, when a new engagement partner is introduced to an audit committee, the committee is presented with the qualifications of the engagement partner, including experience with audits of similarly complex entities and specialized industries."[6/] Other commenters believed that the disclosure would distort the user's perception of the role the firm plays in the conduct of the audit. Finally, some commenters were concerned about incorrect inferences investors and other financial statement users would make about the quality of audits or qualifications of the engagement partners.

Consistent with views expressed by investors in comment letters on the 2011 Release, comments made by a number of investors in meetings of the Board's SAG and IAG suggest that they see value in learning the identity of the engagement partner. Some investors, for example, indicated that the engagement partner's expertise would be relevant in ratifying the company's choice of a registered firm as its auditor.

The Board believes that disclosure of the engagement partner's name in the auditor's report would provide valuable information to investors and other financial statement users. Making the identity of the engagement partner publicly available would, over time, enable investors and other financial statement users to research the number, size, and nature of companies that the partner has audited, and industries that the partner has served as engagement partner. The disclosure also would enable investors and other financial statement users to determine whether the engagement partner was named in a public disciplinary proceeding, or it would inform shareholders' decisions about whether to ratify the company's choice of registered firm as its auditor.

Having considered the comments received on the 2011 Release, views of investors expressed in SAG and IAG meetings, and academic research, the Board is reproposing the disclosure of the engagement partner's name in the auditor's report substantially as proposed.

The reproposed amendments do not change the accounting firm's role in performing the audit or in issuing the auditor's report or any of the engagement partner's responsibilities. The engagement partner remains responsible for the audit and its

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[6/] See letter from Richard E. Piluso, President, New York State Society of Certified Public Accountants, to Office of the Secretary, PCAOB (January 4, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/018b_NYSSCPA.pdf.

performance, as described by Auditing Standard No. 10, *Supervision of the Audit Engagement*. The only signature on an auditor's report would continue to be that of the accounting firm.

B. Other Considerations

1. Disclosure in Reissued Auditor's Reports of Predecessor Auditors

In situations in which a predecessor auditor has been asked to reissue the auditor's report on the financial statements of a prior period, existing standards require the auditor to consider whether the auditor's report on those statements is still appropriate after certain required procedures are performed.[7/] If the predecessor auditor determines that the auditor's report is still appropriate and the auditor's report is reissued, the disclosure of the engagement partner in the audit need not be repeated in that auditor's report. Since the disclosure of the engagement partner in the audit is required only for the most recent period's audit, the reproposed amendments would not require the disclosure of the engagement partner in the audit in the reissued report of the predecessor auditor for prior years.

2. Reputational Considerations

Some commenters expressed concern that an engagement partner's reputation could be unfairly harmed due to association with an audit. For example, some commenters suggested that users of the auditor's report might misinterpret the role of a partner in a restatement of the company's financial statements.[8/] Some commenters stated that some partners might be reluctant to serve on the audits of certain issuers or to remain in the accounting profession because of reputational risk associated with the disclosure of their names.

As noted earlier in this release, requiring disclosure of engagement partners is intended to increase transparency about who led the audit. By increasing transparency, the reproposed amendments, if adopted, are intended to improve the usefulness of information available to investors and other financial statement users. Allowing

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[7/] See paragraphs .70-.73 of AU sec. 508, *Reports on Audited Financial Statements*, which discuss the report of a predecessor auditor.

[8/] The Board notes that restatements occur for a variety of reasons, including corrections of errors in prior-year financial statements, identification of new information related to a particular account or disclosure, and retrospective application of new accounting pronouncements.

investors, shareholders, audit committee members and other market participants to consider an engagement partner's past work and reputation would be an intended result of the reproposed amendments.

The Board has, of course, considered whether investors might misunderstand the disclosure or make unfair or unwarranted assumptions about engagement partners as a result of the requirement. A fundamental premise of the federal securities laws is that the disclosure of relevant and accurate information enhances market efficiency by improving investors' ability to decide how to allocate their capital. The names of a public company's officers and directors—as well as its audit firm—are routinely disclosed in its public filings. The Board believes that investors and other market participants would be able to understand and make appropriate use of the disclosure required by the reproposed amendments.

One commenter also expressed concern that "[u]nder the proposed rule, underwriters might eventually develop a sub-set of 'approved engagement partner' or partners with specialized industry knowledge, despite the fact that industry expertise might be provided by other than the engagement partner, and in some engagements in some firms, by an individual below the level of partner."[9/] The expertise of other members of the audit engagement team, however, cannot substitute for lack of the engagement partner's industry expertise. PCAOB standards on quality control contain specific requirements regarding industry expertise that the engagement partner should possess. For example, the engagement partner should possess "an understanding of the industry in which a client operates. In performing an audit or review of financial statements, this understanding would include an industry's organization and operating characteristics sufficient to identify areas of high or unusual risk associated with an engagement and to evaluate the reasonableness of industry specific estimates."[10/]

3. Personal Security

On July 28, 2009, the Board issued a concept release to seek commenters' views on whether it would be advisable for the Board to require the engagement partner

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[9/] See letter from Richard E. Piluso, President, New York State Society of Certified Public Accountants to Office of the Secretary, PCAOB (January 4, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/018b_NYSSCPA.pdf.

[10/] Paragraph .08 of QC Section 40, *The Personnel Management Element of a Firm's System of Quality Control—Competencies Required by a Practitioner-in-Charge of an Attest Engagement*.

to sign his or her own name to the auditor's report ("2009 Release").[11/] In the 2009 Release, the Board noted that the European Union's ("EU's") Eighth Company Law Directive requires a natural person to sign the auditor's report but allows for an exception "if such disclosure could lead to an imminent and significant threat to the personal security of any person."[12/] Some commenters on the 2009 Release suggested that such an exception could be necessary if a signature requirement is adopted. Other commenters did not believe an exception was necessary.

The Board originally proposed the requirement to disclose the engagement partner's name without an exception analogous to that in the EU's Eighth Directive. In the 2011 Release, the Board sought comment on whether the proposed disclosure would create particular security risks that warrant treating auditors differently from others involved in the financial reporting process.

In general, comments on the 2011 Release with respect to personal security were similar to comments on the 2009 Release. Some of the commenters believed that naming the engagement partner may create security risks for the engagement partner, and that even the perception of increased personal security concerns could have a negative impact on accounting firms' ability to recruit and retain the most qualified professionals. Other commenters indicated that auditors should not be treated differently, for security purposes, than other individuals involved in the financial reporting process who are publicly associated with an issuer's filing, or that personal security risks would increase as a result of the proposed disclosure.

After considering the comments received, the Board has not included an exception to the disclosure requirement analogous to that in the EU's Eighth Directive in the reproposed amendments. Further, a requirement to disclose the engagement partner's name has been in place in certain foreign jurisdictions for quite some time, yet no specific experience brought to the Board's attention provided persuasive information that personal risks to the engagement partners would increase as a result of these requirements.

[11/] See *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, PCAOB Release 2009-005 (July 28, 2009) available at http://pcaobus.org/Rules/Rulemaking/Docket029/2009-07-28_Release_No_2009-005.pdf.

[12/] Directive 2006/43/EC of the European Parliament and of the Council, Article 28, Audit Reporting (May 17, 2006) available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006L0043:en:NOT.

II. Board's Consideration of Comments in the 2011 Release Relating to Other Participants in the Audit

A. Applicability of, and Exclusions from, the Disclosure

The reproposed amendments describe those participants in the audit to whom the requirements are applicable and those participants that are excluded from the disclosure.

1. Applicability of the Disclosure

The reproposed amendments to the Board's auditing standards would require the auditor to disclose information about independent public accounting firms and other persons not employed by the auditor that took part in the audit under arrangements pursuant to either AU sec. 543, *Part of the Audit Performed by Other Independent Auditors*,[13/] or Auditing Standard No. 10, as applicable.

The commenters' views on the usefulness, and therefore applicability, of the proposed disclosure were divided. Some commenters believed that the proposed disclosure would provide useful information, whereas others did not see value in including in the auditor's report information about the other participants. Some such commenters were concerned that the proposed disclosure may cause confusion over who has responsibility for the audit. Some other commenters believed that the evaluation of the other participants should be performed by the audit committee, who selects the auditor, rather than by investors.

For reasons previously described, the Board is reproposing the amendments to provide information about other participants in the audit. The required disclosure states that the auditor is responsible for the audits and audit procedures performed by the other participants in the audit. Thus, the disclosure would provide accurate and descriptive information to readers of the auditor's report regarding the responsibilities of the parties involved in the audit.

The Board recognizes that the audit committee generally has greater access to information about the auditor and other participants in the audit than investors and other financial statement users because of the audit committee's role in the appointment, compensation, and oversight of the company's auditor.[14/] This does not mean that

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[13/] See AU secs. 543.03-.05.

[14/] Paragraph 10.d. of Auditing Standard No. 16, *Communications with Audit Committees*, requires the auditor to communicate to the audit committee, among other information about the auditor and other participants in the audit would not also be useful to investors and other financial statement users, nor that enhanced transparency would not also assist audit committee members in performing their roles.

In addition to the more general comments on the requirements, one commenter raised a concern regarding the applicability of the proposed disclosure to alternative practice structures. Specifically, the commenter expressed a concern that alternative practice structures could be viewed negatively if a large number of individuals on audit engagements are disclosed in the auditor's report as non-employees of the audit firm. The Board's standards describe alternative practice structures as "nontraditional structures" whereby a substantial (the nonattest) portion of an accounting firm's practice is conducted under public or private ownership, and the attest portion of the practice is conducted through the accounting firm.[15/] Employee sharing or employee leasing arrangements between an accounting firm and a secondary party are a common form of alternative practice structures.

The originally proposed amendments were intended to provide investors and other financial statement users with greater transparency into the other participants in the audit, including other persons. After considering comments received, no change was made regarding the applicability of the requirement with respect to alternative practice structures. However, as described in the next section of this Appendix, the Board has modified the amendments so that the other persons not employed by the auditor would be listed in the disclosure as "persons not employed by our firm," rather than identified by their names. The other accounting firms participating in the audit would continue to be identified by their names.

2. Exclusions from the Disclosure

Similar to the 2011 Release, the reproposed amendments exclude the following participants in the audit from the disclosure requirements:

- Individuals performing the engagement quality review ("EQR");[16/]

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information, the names, locations, and planned responsibilities of the other independent public accounting firms or other persons not employed by the auditor that perform audit procedures in the current period audit.

[15/] ET section 101.16, *101.14 – The effect of alternative practice structures on the applicability of independence rules*.

[16/] See Auditing Standard No. 7, *Engagement Quality Review.*

- Persons performing a review pursuant to Appendix K ("Appendix K review");[17] and
- Persons employed or engaged by the company who provided direct assistance to the auditor, including:
    - o Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting;[18] and
    - o Internal auditors who provided direct assistance in the audit of the financial statements.[19]

Similar to the 2011 Release, the reproposed amendments exclude individuals performing the EQR because the EQR is intended to be an objective second look at work performed by the engagement team, and the reviewers' work is not supervised by the auditor in accordance with Auditing Standard No. 10. Similarly, persons performing the Appendix K review would be excluded because the auditor does not supervise or assume responsibility for the Appendix K review. Finally, persons employed or engaged by the company who provide direct assistance to the auditor would be excluded because determining the extent of their participation in the audit may be impractical. Such persons also may perform other tasks for the company not related to providing direct assistance to the auditor or may not track time spent on providing the direct assistance.

The 2011 Release also excluded persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing. After further considering the role of such persons in the audit, the Board proposes to require, rather than exclude, disclosure in the auditor's report of persons with specialized skill or knowledge in a particular field other than accounting or auditing.

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[17] See Securities and Exchange Commission Practice Section ("SECPS") 1000.45 Appendix K, *SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants.* The Board adopted the requirements of the SECPS of the American Institute of Certified Public Accountants as part of its interim standards.

[18] See paragraph 17 of Auditing Standard No. 5.

[19] See paragraph .27 of AU sec. 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.

Currently, persons employed by the auditor with specialized skill or knowledge are supervised in accordance with Auditing Standard No. 10, while AU sec. 336*, Using the Work of a Specialist*, governs the auditor's use of persons engaged by the auditor with specialized skill or knowledge. As discussed below, persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing would be disclosed as "persons not employed by our firm." The Board believes that disclosure about the location and extent of participation of these other participants would be as relevant to investors and other financial statement users as information about any other participants in the audit.

B. Information to be Disclosed

The 2011 Release included the following disclosure requirements in an explanatory paragraph to the auditor's report:

- The names of other participants in the audit (including the financial statement audit and, when applicable, the audit of internal control over financial reporting, and reviews pursuant to AU sec. 722, *Interim Financial Information*);

- The location of other participants in the audit (the country of headquarters' office location for a firm and the country of residence or headquarters' office location of another person); and

- The percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit in relation to the total hours in the most recent period's audit ("the percentage of the total hours in the most recent period's audit").

In general, commenters expressed their support for the disclosure, although some commenters suggested certain modifications. Those suggested modifications, and the Board's responses, are described below.

1. Disclosing Names of the Accounting Firms vs. Other Persons Not Employed by the Auditor

As described previously, one commenter raised a concern regarding the applicability of the proposed disclosure relating to other persons not employed by the auditor in relation to alternative practice structures. Specifically, the commenter requested a change in the applicability of the requirement to exclude alternative practice structures.

The Board made no such change; however, the originally proposed amendments have been modified so that the other persons not employed by the auditor would be listed in the disclosure as "persons not employed by our firm," rather than identified by their names.[20/] For instance, such persons may include persons with specialized skill or knowledge in a particular field other than accounting or auditing. The Board recognizes that while other persons may participate in the audit, the intent of the 2011 Release principally was to capture the names of accounting firms. The Board's website includes names of registered accounting firms, inspection reports, and disciplinary actions.

The names of other types of companies or individuals not employed by the auditor may not be as meaningful as the fact of their participation and the location where the work was performed. The reproposed amendments would require disclosing the location of such persons (depending on the extent of participation) and the percentage or range of their extent of participation—combined, if there are multiple other persons from the same country not employed by the auditor.[21/] The disclosure of the location and extent of participation in the audit of other participants would allow users to understand whether the other participants are headquartered or reside in the auditor's home country or in other jurisdictions, as well as how much of the audit was performed by those other participants.

2. Affiliate Relationships, Including Offshoring Arrangements

Some commenters suggested that the disclosure of affiliated accounting firms should be different from the disclosure of non-affiliated firms. For example, such commenters recommended disclosing that the affiliated firms follow a common audit methodology and employ consistent quality controls. Some of these commenters and others also recommended describing the auditor's oversight of affiliated firms

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20/ While the reproposed amendments do not include a requirement to describe alternative practice structure arrangements, the reproposed amendments would not prohibit the accounting firm issuing the auditor's report from including additional language in the auditor's report describing that the firm leases its employees as part of its alternative practice structure. However, any additional language that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's responsibility for the audit or the auditor's opinion on the financial statements is not appropriate and may not be used.

21/ The location for a natural person is the country of residence. The location of a person that is an entity is the country of the entity's headquarters' office location.

participating in the audit. Other commenters suggested that accounting firms affiliated with the auditor should not be disclosed at all.

Another group of commenters noted that many of the smaller accounting firms, unlike larger firms, routinely use participants from outside the firm in their audits as they are not part of a network of firms. In some of these commenters' views, the proposed disclosure of non-affiliated firms or persons not employed by the firm may suggest to some that audits conducted by smaller accounting firms are of inferior quality.

The Board considered these comments and decided that the same disclosure requirements would apply to all accounting firms, whether or not a firm is affiliated with an audit network. The arrangements by which firms affiliate with one another and the related effect on the affiliated firms' quality controls varies. The Board is reproposing disclosure requirements that would provide users of the auditor's report with the names and locations of other accounting firms involved in the audit regardless of their network affiliation or other relationship. Regarding an additional disclosure of the auditor's oversight of other participating affiliated firms, as suggested by some commenters, the reproposed amendments, like the proposed amendments, clearly describe the auditor's oversight and supervision of the disclosed participants. Accordingly, no such additional disclosure requirement was added to the reproposed amendments.

The 2011 Release also noted that some accounting firms had begun a practice, known as offshoring, whereby certain portions of the audit are performed by offices of the accounting firm issuing the auditor's report in a country different than the country where the firm is headquartered. While large U.S. accounting firms have, for some time, referred audit work on U.S.-based, multinational corporations to their foreign network affiliates, the practice of sending some audit work to offshore service centers, typically in countries where labor is inexpensive, has been increasing in recent years. In the 2011 Release, the Board explained that the proposed amendments would not require disclosure of offshoring arrangements to the extent that the offshored work is performed by another office of the same accounting firm.

Some commenters agreed with the Board's proposed treatment of offshoring, while others suggested that disclosure of all offshoring arrangements should be required. Other commenters did not believe the proposed amendments should require disclosure of any offshoring arrangements. For example, one commenter stated that "assessment of the impact of these sorts of arrangements is the responsibility of the audit committee, not the marketplace."[22/]

One commenter stated that "[t]he proposed amendments are not clear how to make the determination whether an off-shore location should be considered another office of the firm," rather than a separate entity requiring disclosure. This commenter noted that "firms may structure their operations in separate legal entities" that "often are wholly-owned and controlled by the registered public accounting firm and its partners," and recommended that the reproposed amendments use "different criteria than those proposed in the Release" to determine if disclosure was required. Specifically, this commenter recommended that the Board not require disclosure when offshored work "is subject to the direct supervision and review of the principal auditor" and the principal auditor retains "[d]etails of the work performed" in its home country.[23/]

After considering the comments, the Board has determined to address the disclosure of offshoring arrangements in the reproposal as originally proposed. Thus, disclosure would not be required when offshored work is performed by an office of the firm that issues the auditor's report, but it is required when it is performed by a separate firm or entity.[24/] The Board understands that offshored work often is performed by companies that are distinct from, but that may be affiliated in some way with, the registered firm that issues the report. Disclosure of these participants in the audit would be consistent with the overall objective of the amendments the Board is reproposing and is an application of the reproposed requirement to disclose other audit participants notwithstanding any network affiliation or other relationship.

22/ See letter from James L. Fuehrmeyer, Jr., Associate Teaching Professor, University of Notre Dame to Public Company Accounting Oversight Board, Attention: Office of the Secretary (December 13, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/012b_JLF.pdf.

23/ See letter from KPMG LLP to Office of the Secretary, Public Company Accounting Oversight Board (January 5, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/019b_KPMG.pdf.

24/ If the offshore entity is a "public accounting firm," as defined by Rule 1001(p)(iii), the auditor's report should include the disclosures required when another independent public accounting firm participates in the audit. If the offshore entity is not a "public accounting firm," the auditor's report should make the disclosures required when persons other than the auditor's full-time, permanent employees participate in the audit.

3. Nature of Work

In the 2011 Release, the Board asked for comments on whether the disclosure in the auditor's report should include a discussion of the nature of the work performed by other participants in addition to the extent of participation.

Some commenters recommended disclosing the nature of the work performed by the other participants because, in these commenters' views, it would provide more meaningful information about the other participants' involvement in the audit than the other participants' share of audit hours. Other commenters, however, believed that if the nature of work were required to be disclosed, the disclosure language could eventually become boilerplate. Many other commenters disagreed with disclosing the nature of the work. After considering the commenter's views, no requirement for disclosure of the nature of the work performed by other participants was added because the Board does not believe that requiring the disclosure of this more detailed information is necessary to achieve the Board's intended objective of providing more transparency of participants in the audit.[25/]

4. Firm's Registration and Board's Ability to Inspect

Although it was not proposed, some commenters believed that a disclosure of other accounting firms participating in the audit should include information about the firm's registration status with the PCAOB and the Board's ability to inspect in the jurisdiction in which the firms are located.

The Board recognizes that some auditors, their overseas offices, and other participants in the audit are located in jurisdictions in which the Board currently is unable to conduct inspections.[26/] However, a requirement to disclose a participating accounting firm's registration status or the Board's ability to inspect in foreign countries was not added to the reproposed amendments. Such disclosures would (1) duplicate information

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25/ While the reproposed amendments do not include a requirement to describe the nature of the work performed, the reproposed amendments would not prohibit the accounting firm issuing the auditor's report from including a description of the work performed by other participants in the audit. However, any description of the work performed that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's responsibility for the audit or the auditor's opinion on the financial statements is not appropriate and may not be used.

26/ The Board is actively pursuing the necessary arrangements that would enable the Board to conduct inspections in all relevant foreign jurisdictions.

that is already publicly available on the Board's website and (2) not reflect any changes that took place after the auditor's report date.[27/] Users of the auditor's report would be able to obtain the most up-to-date registration and inspection information from the Board's website based on the name and location of an accounting firm disclosed in the auditor's report.

C. Extent of Participation

The originally proposed requirements included a 3% threshold for disclosing the other participants' relative participation in the audit. As originally proposed, the amendments would have required other participants in the audit whose individual extent of participation would have been 3% or more of the total hours in the most recent period's audit to be disclosed individually with their respective extent of participation. Those other participants in the audit whose individual extent of participation would have been less than 3% would be disclosed either individually or as a group.

As described below, comments were expressed about the originally proposed disclosure metric and disclosure threshold.

1. Disclosure Metric

The reproposed amendments, like the originally proposed amendments, would require that the percentage of the total hours in the most recent period's audit be determined as of the date of the auditor's report for each other accounting firm or other person participating in the audit. The reproposed disclosure requirements would apply only to the most recent period under audit.

In cases in which the financial statements for all periods presented were audited during one audit engagement (for example, in an initial public offering, single-period audit, or re-audit of multiple periods), the auditor would be required to disclose, as was proposed, the percentage of audit hours attributable to the audits or audit procedures performed by other participants in the audit in relation to the total audit hours for all periods presented. Section II.D., *Presentation in the Report*, later in this Appendix, includes a discussion of the disclosure in cases in which the auditor's report is dual dated.

[27/] See generally, http://pcaobus.org/Registration/Pages/default.aspx, http://pcaobus.org/International/Pages/default.aspx, and http://pcaobus.org/Inspections/Pages/default.aspx for publicly available information about inspections and registration-related information.

Most commenters agreed with using the percentage of audit hours as the metric for disclosing the extent of participation. Some commenters suggested using other metrics that, in their view, would be more appropriate, for example, audit fees, the extent to which the auditor and other participants were responsible for auditing the assets and revenue of the company, and the company's segment or subsidiary audited by the other participants.

When developing the proposed amendments, metrics similar to those suggested by commenters were considered. For instance, the Board considered audit fees incurred in the most recent period's audit by other participants in the audit as a percentage of audit fees in the issuer's proxy disclosure. However, the Board concluded that this measure may not be representative of the extent of other participants' participation in the audit because audit fees in the proxy disclosure may include fees for other services (for example, other regulatory and statutory filings) and also may exclude fees paid directly to other participants rather than to the auditor.

Another metric considered was the percentage of revenues or assets tested by other participants. AU sec. 543 currently uses this metric when the auditor divides responsibility with the other auditor who audited part of the company. However, the use of this metric may not be suitable in all circumstances, particularly when both the other participants and the auditor perform audit procedures on the same location, business unit, or financial statement line item. For instance, other participants in the audit might perform an inventory observation to test the existence of the inventory at a particular location, and the auditor might test the valuation of the inventory at all locations, including the one tested by the other participants.

The Board continues to be of the view that the percentage of total hours in the most recent period's audit appears to be the most relevant and practical metric for the purpose of disclosure of the extent of other participants' participation in the audit. The reproposed amendments, like the proposed amendments, would require the use of this metric.

2. Disclosure Threshold

The originally proposed amendments would have required the auditor to state the percentage of hours attributable to the audits or audit procedures performed by other participants in the audit in relation to the total hours in the most recent period's audit. Specifically, the Board proposed requiring that other participants in the audit whose individual extent of participation would have been 3% or more of total hours in the most recent period's audit were to be disclosed individually with their respective extent of participation. Those other participants in the audit whose individual extent of participation would have been less than 3% were to be disclosed either individually or as a group titled "other participants" with the group's aggregate extent of participation.

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The Board received many comments on the proposed threshold. Some of the commenters suggested that a 3% threshold is too low because it would result in disclosing information that is not meaningful to the users of the auditor's report. In the view of these commenters, a higher threshold would be more appropriate and useful. For example, a couple of commenters suggested the percentage should be the same as the 10% of revenue threshold for disclosing sales to a single customer under Financial Accounting Standards Board pronouncements.[28/] Other commenters believed that the threshold should be 20%, as in the substantial role criteria for registration with the Board.[29/] In contrast, another commenter suggested that a 1% threshold would provide the most meaningful information to users of the auditor's report about the extent of the other participants' participation in the audit.

The Board's intention is to provide meaningful information to investors and other financial statement users about participants in the audit. In light of the commenters' recommendations for a higher threshold, the Board's staff analyzed the impact of raising the threshold on the disclosure of other participants in a number of larger audit engagements.[30/] According to the analysis, the maximum number of other participants

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[28/] See Financial Accounting Standards Board Accounting Standards Codification, Topic 280, Segment Reporting, subparagraph 10-50-42.

[29/] According to paragraph (p)(ii), "Play a Substantial Role in the Preparation or Furnishing of an Audit Report," of PCAOB Rule 1001, *Definitions of Terms Employed in Rules*, "[t]he phrase 'play a substantial role in the preparation or furnishing of an audit report' means—(1) to perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report with respect to any issuer, or (2) to perform the majority of the audit procedures with respect to a subsidiary or component of any issuer the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer necessary for the principal accountant to issue an audit report on the issuer." Under Rule 2100, each public accounting firm that "plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer must be registered with the Board."

[30/] The Board's staff analyzed information provided by auditors of more than 100 larger issuers with respect to audit engagements conducted in 2011 and 2012. The selected information included the names of other participants in the audit and their individual extent of participation as the percentage of the total audit hours, without using a threshold. The Board's staff used this information to determine the approximate number of other participants in larger audit engagements that would be required to be disclosed individually using a 3%, 5%, and 10% threshold.

disclosed individually using a 3%, 5%, and 10% threshold was 10, 7, and 3, respectively, per issuer.

Taking into account the comments received and the results of the analysis described above, the disclosure threshold in the reproposed amendments was raised from 3% to 5%. In the Board's view, using a 10% threshold could significantly reduce visibility into participants performing a large part of an audit, compared with using a 3% threshold or a 5% threshold.[31]

The reproposed amendments would require the auditor to disclose other participants in the audit whose individual extent of participation is 5% or more of the total hours in the most recent period's audit. The extent of participation would be disclosed either as a single number or within a range (see Section II.D., *Presentation in the Report,* in this Appendix for further discussion on disclosure within ranges). Only public accounting firms whose individual contribution to the audit exceeded 5% of total audit hours would have their names and locations disclosed. With respect to other persons, to the extent that such persons reside or are headquartered in the same country, those persons whose aggregate contribution to the audit exceeded 5% of total audit hours would be disclosed as "persons in [insert country] not employed by our firm."

Finally, those who commented on the disclosure of other participants with the extent of participation below the threshold generally believed that it would be more appropriate to disclose such other participants as a group, rather than individually. This is consistent with the reproposed amendments. Accordingly, for those other participants in the audit whose individual extent of participation is less than 5% of the total hours (if there is more than one other person not employed by the auditor from the same country, their combined extent of participation should be used for this purpose), the reproposed amendments would require the auditor to disclose them as a group and state their aggregate extent of participation either as a single number or as a range. Other independent public accounting firms and persons not employed by the auditor would be required to be disclosed in separate groups. The reproposed amendments also would require the auditor to disclose the number of accounting firms whose individual extent of participation is below the 5% threshold.

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[31] Based on the staff's analysis, raising the threshold from 5% to 10% could result in disclosing four fewer participants in an audit. More than a third of an audit could be performed by four participants whose extent of participation is individually 9% of the total audit hours.

D. Presentation in the Report

The reproposed amendments would require the auditor to make the required disclosures about other participants in the audit in the auditor's report. Specifically, the auditor would be required to add an explanatory paragraph to the auditor's report and also may include a reference to an appendix to the report. The following section discusses consideration of the disclosure in the auditor's report, how the information would be presented, and considerations for when an auditor's report is dual dated.

1. Disclosure in the Auditor's Report

The Board originally proposed that the disclosure of information about other participants in the audit be made in the auditor's report for the most recent period's audit as an explanatory paragraph that would be presented after the opinion on the financial statements and, when applicable, the opinion on the effectiveness of internal control over financial reporting and other explanatory paragraphs. The 2011 Release also noted that the explanatory paragraph could include a reference to an appendix immediately following the auditor's report that would include the required disclosure of other participants in the audit. Further, the 2011 Release noted that some auditors may prefer this alternative in audits in which there is more than one other participant in the audit. The 2011 Release stated that if the auditor issues separate reports on the financial statement audit and the audit of the effectiveness of internal control over financial reporting, the explanatory paragraph in each separate report should include a reference to the same appendix. Illustrative disclosure examples were also included in the originally proposed amendments.

Those commenters who supported the originally proposed amendments agreed with the proposed presentation in the auditor's report. Two opponents of the disclosure in the auditor's report suggested that consideration be given to utilizing Form 2 for the disclosure of other participants. One of these commenters suggested that Form 2 "would be a more useful location for such disclosures, as the determination of information in SEC filings is more appropriately maintained within the SEC's jurisdiction, Form 2 disclosures would not lengthen issuer and broker-dealer filings with tangential information, and Form 2 disclosures would not be subject to the estimation of hours necessitated by the short time constraints for SEC filings."[32/] The other commenter

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[32/] See letter from Tom Quaadman, Center for Capital Market Competiveness of the U.S. Chamber of Commerce, to J. Gordon Seymour, Secretary, PCAOB (January 9, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/029b_Chamber.pdf.

believed that "Form 2 would allow investors, audit committees, and other third parties that seek the name of . . . other audit participants to obtain such information from one location."[33/]

After considering the views of these commenters and the advantages and disadvantages of disclosure on Form 2,[34/] the Board determined that the disclosures would be best presented in the auditor's report. As such, the Board is reproposing such disclosure in the auditor's report through an explanatory paragraph with illustrative examples substantially as proposed.

2. Presentation as a Single Number or as Ranges

The Board originally proposed that the extent of participation of the other participants in the audit be presented as a single number.

Some commenters on the 2011 Release cautioned about potential difficulties for auditors in determining an exact percentage of the total audit hours attributable to the other participants in the audit. For instance, in the commenters' view, extra effort may be required for determining separately the other participants' time spent on consolidated and local statutory audits, or determining whether time incurred on performing interim reviews, engagement acceptance and retention procedures, or review of the predecessor auditor's work should be included in the total audit hours.

Many of these commenters suggested that this type of disclosure could be costly to prepare and disruptive for both the auditor and other participants in the audit. These commenters recommended disclosing the extent of participation in ranges (for example, X%-Y%) rather than as a single number as the information would still be useful for the reader, but obtaining and presenting it would be less costly and disruptive. The commenters suggested various ranges for such a disclosure.

Having considered comments on the originally proposed amendments, the Board modified the originally proposed requirements to propose presentation of the extent of participation within a range or as a single number. In calculating the percentage of the

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[33/] See letter from Grant Thornton LLP to Office of the Secretary, PCAOB (January 9, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/036b_GT.pdf.

[34/] Refer to Section V.C.2., Economic Considerations, Alternatives Considered, *Disclosure in Firms' Annual Reports Filed with the PCAOB on Form 2*, in the release for further discussion of this alternative.

total audit hours in the most recent period's audit,[35/] the auditor may estimate the total hours for the audit and the portion of hours attributable to each participant in the audit in situations in which the actual number of hours has not been reported. Further, the staff's analysis, described earlier, indicated that generally there are more participants in the range of 5% to less-than-10% than in the range of over 10%. The analysis also indicated that—cumulatively—participants whose extent of participation is less than 10% could perform a significant part of the audit.

Accordingly, to provide investors and other financial statement users with greater visibility into the relative extent of participation of other participants in the audit, the reproposed amendments would allow disclosure of the other participants as a single number or by listing such persons and firms within the applicable range(s), beginning with narrower ranges—less-than-5% and 5% to less-than-10%—and then in wider ranges—10% to less-than-20%, 20% to less-than-30%, and so on up to a range of 90%-or-more. Ranges below 50% may contain multiple participants.

In situations in which the extent of participation is less-than-5%, individually for firms or in the aggregate for person from the same country, the auditor would not be required to disclose the names and locations of other accounting firms or the locations of other persons not employed by the auditor. However, the auditor would be required to group and disclose the aggregate percent of participation of the other accounting firms or other persons not employed by the auditor and provide the number of firms in the group titled "other firms" or the number of countries in the group titled "other persons not employed by our firm."

Shown below are examples of the application of these requirements.

a. Example of Application for Other Participating Accounting Firms

In the case of other participating accounting firms, the auditor considers other participating accounting firms individually to determine the appropriate disclosure. For

[35/] The total hours in the most recent period's audit include hours attributable to the financial statement audit and, when applicable, the audit of internal control over financial reporting and reviews pursuant to AU sec. 722, and exclude hours attributable to the performance of the EQR and Appendix K review. The EQR and Appendix K review can be performed by an individual employed by the auditor or by an individual or a person outside the auditor's own firm. In either case, the reproposed amendments do not require these reviewers to be disclosed. Accordingly, hours attributable to the EQR and Appendix K review are excluded from the calculation of the total audit hours.

example, if there are four other accounting firms that participate in the audit— three whose individual extent of participation was 4% and one (ABC Audit Firm in Country A) whose individual extent of participation was 15%— the auditor's report would present the following:

Other Participants in the Audit and Their Extent of Participation

10% to less-than-20%

- ABC Audit Firm (Country A) [or alternatively, if a single number option is selected: 15%]

Other participants whose individual or aggregate extent of participation was less-than-5%:

- Three other firms, whose individual extent of participation was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of 10% to less-than-20% [or alternatively, if a single number option is selected: 12%].

In this example, the names and locations of the three other accounting firms are not disclosed because their individual extent of participation was each less than the 5% threshold.

b. Example of Application for Other Persons Not Employed by the Auditor

In the case of other persons not employed by the auditor, the auditor would group persons based on the country of headquarters' office location or residence to determine the appropriate disclosure. For example, if there are ten persons not employed by the auditor involved in the audit—two persons from Country A, three persons from Country B, two persons from Country C, and three persons from Country D—the auditor first groups the persons by country:

- In Country A, Person 1's individual extent of participation was 2% and Person 2's individual extent of participation was 7% equaling 9% of total audit hours performed by persons in Country A not employed by the auditor (included in the range of 5% to less-than-10% in the example below).

- In Country B, Person 1's individual extent of participation was 3%, Person 2's individual extent of participation was 4%, and Person 3's individual extent of participation was 4% equaling 11% of total audit hours performed by persons in Country B not employed by the auditor (included in the range of 10% to less-than-20% in the example below).

- In Country C, Person 1's individual extent of participation was 2% and Person 2's individual extent of participation was 2% equaling 4% of total audit hours performed by persons in Country C not employed by the auditor (included in the individually less than 5% category in the example below).

- In Country D, Person 1's individual extent of participation was 1%, Person 2's individual extent of participation was 2%, and Person 3's individual extent of participation was 1% equaling 4% of total audit hours performed by persons in Country D not employed by the auditor (included in the individually less than 5% category in the example below).

In this example, the auditor's report would present the following:

Other Participants in the Audit and Their Extent of Participation

10% to less-than-20%

- Persons in Country B not employed by our firm [or alternatively, if a single number option is selected: 11%]

5% to less-than-10%

- Persons in Country A not employed by our firm [or alternatively, if a single number option is selected: 9%]

Other participants whose individual or aggregate extent of participation was less than 5%:

- Other persons from two countries not employed by our firm, whose aggregate extent of participation by country was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of 5 to less-than-10% [or alternatively, if a single number option is selected: 8%].

In this example, the location and extent of participation for persons in Countries A and B are disclosed because the aggregate percent of participation is greater than the 5% threshold; however, for Countries C and D, only the total extent of participation is disclosed as the aggregate contribution of persons from Countries C and D was each less than 5% of the total audit hours.

3. Disclosure in Dual-Dated Auditor's Reports

The Board proposed that in instances in which an auditor's report is dual dated due to subsequent discovery of facts, the auditor's report include the information presented at the original issuance date and then separately disclose the incremental extent of participation from the original issuance date to the latest report date.

Commenters expressed mixed views on the originally proposed disclosure requirements in these circumstances. Some commenters supported separate disclosure of the incremental extent of participation when an auditor's report is dual dated. Other commenters did not believe that separate disclosure of the percentage of hours attributed to the work performed subsequent to the original report date would be useful to users of the auditor's report.

After considering the commenters' views, the originally proposed disclosure requirement for when an auditor's report is dual dated was modified. Specifically, the reproposed amendments would not require the auditor to disclose in the auditor's report separately the percentage of hours attributable to the work performed as of the original report date and the percentage of hours attributable to the work performed subsequent to the original report date. Instead, the reproposed amendments would require that the auditor disclose in the auditor's report the extent of participation as the total percentage of the hours attributable to the work performed by other participants in the audit as of the latest report date.

Pursuant to the Board's standards, an auditor's report may be dual dated at the original issuance (generally because of a subsequent event) or upon a subsequent reissuance (generally because of a financial statement restatement or a material subsequent event).[36/] The Board recognizes that, in situations in which an auditor's report is reissued and dual dated,[37/] the auditor would be required to recompute the extent of the other participants' participation and present the disclosure as of the latest

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[36/] See paragraphs .05 and .06 of AU sec. 530, *Dating of the Independent Auditor's Report*.

[37/] Based on the Board's staff analysis of auditors' reports filed in SEC annual (for example, Forms 10-K and 20-F) and amended annual (for example, Forms 10-K/A and 20-F/A) reporting forms for fiscal years 2011, 2010, and 2009, there were 15, 145, and 173 instances, respectively, in which the auditor's report was reissued and dual dated.

report date. However, in both situations the extent of participation would be disclosed as of the latest report date.

4. Disclosure in Reissued Auditor's Reports of Predecessor Auditors

In situations in which a predecessor auditor has been asked to reissue the auditor's report on the financial statements of a prior period, existing standards require the auditor to consider whether the auditor's report on those statements is still appropriate after certain required procedures are performed.[38/] If the predecessor auditor determines that the auditor's report is still appropriate and the auditor's report is reissued, the disclosure of other participants in the audit need not be repeated in that auditor's report. Since the disclosure of other participants in the audit is only required for the most recent period's audit, the reproposed amendments would not require the disclosure of the other participants in the audit in the reissued report of the predecessor auditor for prior years.

E. Disclosure Requirements in Situations in Which the Auditor Divides Responsibility for the Audit with Another Accounting Firm

In situations in which the auditor divides responsibility for the audit with another accounting firm, the Board originally proposed that the auditor's report require the auditor to disclose in the auditor's report the name of the referred-to accounting firm and the country of its headquarters' office location, which is not part of the existing requirements when dividing responsibility for an audit. Additionally, the originally proposed amendments to AU sec. 543 would have removed the existing requirement to obtain express permission of the referred-to accounting firm when disclosing the firm's name.[39/] The SEC rules already include a requirement that the auditor's report of a referred-to accounting firm should be filed with the SEC, so the name of the firm is already made public.[40/] The Board did not propose any changes to the existing requirements for disclosure of the magnitude of the portion of the financial statements audited by the referred-to accounting firm.[41/]

38/ See AU secs. 508.70-.73, which discuss the report of a predecessor auditor.

39/ See AU secs. 543.03 and .06-.09.

40/ See Rule 2-05 of Regulation S-X, 17 C.F.R. § 210.2-05.

41/ See AU sec. 543.07. Existing PCAOB standards require that the auditor disclose the magnitude of the portion of the financial statements audited by the referred-

Commenters had mixed views on this requirement. A few commenters supported the inclusion of the name and location of the referred-to accounting firms in the auditor's report. Other commenters believed that the name of the referred-to accounting firm in the auditor's report was unnecessary as the information is already public since the auditor's report of the referred-to accounting firm is required to be filed with the SEC. These commenters believed the disclosure would be redundant. Others who did not support the requirement for disclosure of other participants in the audit did not support this level of information in the auditor's report.

Further, commenters on this matter expressed mixed views on whether express permission should continue to be obtained from the referred-to accounting firm. A few commenters noted that obtaining permission for including the name is a common courtesy and should be retained. The remaining commenters supported the removal of the requirement and did not believe that it would pose any implementation challenges.

Some commenters expressed concern that the different metrics for disclosing the magnitude of the portion of the financial statements audited by the referred-to accounting firm (expressed in dollar amounts or percentages of total assets, total revenues, or other criteria) and the extent of participation of other participants in the audit (expressed as a percentage of total hours) may create confusion among users of the auditor's report. Others suggested that any confusion would be minimal and that investors would be able to navigate the information disclosed effectively, even with two different metrics.

Having considered comments on the originally proposed amendments, the Board is reproposing the requirements as originally proposed. The reproposed amendments to AU sec. 543 would require, as originally proposed, the name of the referred-to firm and the country of its headquarters' office location to be disclosed in the auditor's report. Also, as proposed, the reproposed amendments would remove the existing requirement in AU sec. 543 to obtain express permission of the referred-to firm when disclosing the firm's name. Including the name of the referred-to firm in the auditor's report on the consolidated financial statements makes it more readily available for investors and other financial statement users.

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to accounting firm by stating the dollar amount or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements audited by the referred-to accounting firm.

Further, the reproposed amendments, like the originally proposed amendments, do not amend the existing requirements for disclosure of the magnitude of the portion of the financial statements audited by the referred-to firm. As discussed earlier, percentage of audit hours appears to be the most relevant and practical metric for disclosing the extent of participation of other participants in the audit.[42/] The existing metrics for disclosing referred-to firms—described in AU sec. 543—also appear to be the most appropriate for such disclosure.

[42/] Refer to Section II.C., Extent of Participation, *Disclosure Metric*, for further discussion of the rationale and requirement for using percentage of audit hours as the metric for disclosing extent of participation of other participants in the audit.

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SUPPLEMENTAL REQUEST FOR COMMENT: RULES TO REQUIRE DISCLOSURE OF CERTAIN AUDIT PARTICIPANTS ON A NEW PCAOB FORM	PCAOB Release No. 2015-004 June 30, 2015 PCAOB Rulemaking Docket Matter No. 029

Summary: The Public Company Accounting Oversight Board ("PCAOB" or "Board") is issuing this supplemental request for comment on its 2013 reproposal to require auditors to disclose in the auditor's report the name of the engagement partner and information about certain other participants in the audit. The Board is considering an alternative to disclosure of this information in the auditor's report, whereby the information would be required to be disclosed on a new PCAOB form. This supplemental request for comment seeks commenters' views on disclosure on a new PCAOB form.

Public Comment: Interested persons may submit written comments to the Board. Such comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803. Comments also may be submitted via e-mail to comments@pcaobus.org or through the Board's website at http://www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 029 in the subject or reference line and should be received by the Board no later than 5:00 p.m. EDT on August 31, 2015.

Board Contacts: Jennifer Rand, Deputy Chief Auditor (202/207-9206, randj@pcaobus.org); Jessica Watts, Associate Chief Auditor (202/207-9376, wattsj@pcaobus.org); Karen Wiedemann, Associate Counsel (202/591-4411, wiedemannk@pcaobus.org); and Lisa Calandriello, Assistant Chief Auditor (202/207-9337, calandriellol@pcaobus.org).

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I. Summary

The Board is issuing this release to solicit comment on an alternative to its 2013 reproposal to require disclosure in the auditor's report of the name of the engagement partner and information about certain other participants in the audit.[1] The new alternative would mandate disclosure of this information on a new PCAOB form, Form AP, *Auditor Reporting of Certain Audit Participants* ("Form AP"). This alternative could provide information about participants in the audit, which investors have consistently sought throughout the Board's rulemaking process, while responding to concerns raised by accounting firms and other commenters about the potential for increased auditor liability or litigation risk. Information filed on Form AP would be available in a searchable database on the Board's website.

The Board continues to consider whether to mandate auditor disclosure regarding certain audit participants and, if so, whether disclosure should be made in the auditor's report or on Form AP. The Board is considering trade-offs as it evaluates the potential of these two different disclosure mechanisms to achieve the benefits of disclosure—transparency and an increased sense of accountability. This supplemental request for comment presents the new PCAOB rule that would be necessary for the Board to implement this alternative, along with instructions for Form AP. The Board is seeking commenters' views on this approach as an alternative to mandated disclosure in the auditor's report.

This supplemental request for comment should be read in conjunction with the 2013 Release, which describes the proposal to mandate disclosure in the auditor's report.

Studies, memoranda, or other substantive items may be added by the Board or staff to the comment file during this rulemaking. A notification of the inclusion in the comment file of any such materials will be made available on the Board's website. To ensure direct electronic receipt of such notifications via e-mail, subscribe to PCAOB updates at http://pcaobus.org/About/Pages/PCAOBUpdates.aspx.

II. Background

For several years, the Board has been considering requiring auditors to provide more information about key participants in audits that are subject to PCAOB standards. Providing such information would provide additional transparency about who is

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[1] *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*, PCAOB Release No. 2013-009 (December 4, 2013) ("2013 Release").

responsible for performing an audit for the benefit and use of investors and other market participants.

The Board began this rulemaking process in 2009, in response to a recommendation of the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession ("ACAP"),[2] by seeking comment on whether the engagement partner should be required to sign the auditor's report.[3] In 2011, after considering commenters' views on a signature requirement, the Board proposed rules that would have required disclosure in the auditor's report of the name of the engagement partner. The Board proposed a disclosure approach instead of a signature requirement primarily in response to commenters' concerns regarding liability and to better reflect the roles of both the firm as a whole and the engagement partner. In addition, the Board proposed rules that would have required disclosures of certain information about accounting firms and other participants in the audit to provide investors and other financial statement users with greater transparency into the other participants in the audit.[4]

In December 2013, the Board reproposed amendments to its standards that would require disclosure in the auditor's report of: (1) the name of the engagement partner; (2) the names, locations, and extent of participation of other independent public accounting firms that took part in the audit; and (3) the locations and extent of participation, on an aggregate basis by country, of certain nonaccounting firm participants in the audit.[5]

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[2] ACAP, *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* (October 6, 2008), at VII:20 (recommending that the PCAOB undertake a standard-setting initiative to consider mandating the engagement partner's signature on the audit report).

[3] *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, PCAOB Release No. 2009-005 (July 28, 2009) ("2009 Release").

[4] *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*, PCAOB Release No. 2011-007 (October 11, 2011) ("2011 Release"). The proposal would also have required accounting firms to name the engagement partner on the public Form 2, *Annual Report Form*, which is the reporting form registered firms are required to file to fulfill their annual reporting obligation to the Board regarding basic information about the firm and the firm's issuer-, broker-, and dealer-related practices over the most recent 12-month period.

[5] *See* 2013 Release.

Throughout this process, the Board has sought to balance the potential benefits of such disclosure with concerns expressed by some commenters about the potential for an increase in auditors' private liability and litigation risk. Toward that end, the Board has looked for ways to achieve the stated goals of the rulemaking while minimizing, to the extent it can, these potential unintended consequences.

III. Comments on the 2013 Release About the Method and Location of Disclosures

The Board received 69 comment letters on the 2013 Release.[6] While the Board continues to consider all comments received on the 2013 Release, and will more fully discuss its responses upon adoption of any final rules, this supplemental request for comment responds to the principal comments received regarding the consequences of disclosure in the auditor's report and other potential locations for the disclosure.

Some commenters on the 2013 Release expressed concern that identifying the engagement partner and the other participants in the audit in the auditor's report could create both legal and practical issues under the federal securities laws by increasing the named parties' potential liability and by requiring their consent if the auditors' reports naming them were included in, or incorporated by reference into, registration statements under the Securities Act of 1933 ("Securities Act").[7] In addition, some commenters expressed concerns about the possible effects of the engagement partner's name appearing in the auditor's report on litigation risk under Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder. In their view, identification in the auditor's report could make it more likely that identified persons would be named in a lawsuit or could affect their liability position. Many commenters on the 2013 Release urged the Board to proceed with the new disclosure requirements, if it

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[6] The Board also received 43 comment letters on its 2011 Release and 23 comment letters on its 2009 Release. As noted in the 2013 Release, this topic has also been discussed at several meetings of the Board's advisory groups, beginning in 2005. All of the comments and transcripts of the relevant portions of the meetings are available on the Board's website. *See* Docket 029, *Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits*.

[7] Section 11 of the Securities Act imposes liability on certain participants in a securities offering, including every accountant who, with his or her consent, has been named as having prepared or certified any part of the registration statement or any report used in connection with the registration statement. Section 7 of the Securities Act requires that the consent of every accountant so named in a registration statement must be filed with the registration statement.

determined to do so, by mandating disclosure on an amended PCAOB Form 2[8] or on a newly created PCAOB form as a means of responding to liability concerns.

Other commenters stated that, in view of the PCAOB's investor protection mission, the 2013 Release gave too much weight to commenters' concerns about liability. These commenters asserted that naming the engagement partner, in itself, would not affect the basis on which liability could be founded.

Some commenters suggested that the audit committee report in the company's proxy statement would be a more appropriate place for these disclosures, as the audit committee is responsible for engaging the auditor.[9]

IV. Disclosure on Form AP

Form AP—Auditor Reporting of Certain Audit Participants

As an alternative to disclosure in the auditor's report, the Board is considering requiring disclosures regarding the engagement partner and other accounting firms participating in the audit to be made on a new PCAOB form, Form AP. Auditors would not be required to include the information in the auditor's report but could choose to do so in addition to filing the form.[10] To implement this alternative, the Board could adopt a

[8] Form 2 is due no later than June 30 of each year covering the 12-month period from April 1 to March 31. The purpose of Form 2 reporting is principally to provide a profile of the firm at a point in time, based on its activity related to issuers, brokers, and dealers. The Board collects information reflecting the extent and nature of the firm's audit practice related to issuers, brokers, and dealers in order to facilitate analysis and planning related to the Board's inspection responsibilities and to inform other Board functions.

[9] The Board understands that staff at the U.S. Securities and Exchange Commission ("SEC" or "Commission") are working on a recommendation to the Commission for a potential concept release on audit committee disclosures. *See, e.g.*, Mary Jo White, Chair, U.S. Securities and Exchange Commission, Remarks at the Society of Corporate Secretaries and Governance Professionals 69th National Conference (June 25, 2015), available at http://www.sec.gov/news/speech/building-meaningful-communication-and-engagement-with-shareholde.html; and James Schnurr, SEC Chief Accountant, Remarks at the 34th Annual SEC and Financial Reporting Institute Conference (June 5, 2015), available at http://www.sec.gov/news/speech/remarks-34th-sec-financial-reporting-institute-conference.html.

[10] If the Board adopts this alternative, paragraph .04 of AU sec. 543, *Part of the Audit Performed by Other Independent Auditors*, would be amended substantially as

rule requiring firms to file Form AP in connection with each issuance of an auditor's report. As discussed in more detail below, Form AP would be filed in a similar way as other PCAOB forms, and the data reported on Form AP would be accessible through a searchable database on the Board's website.

In its consideration of this standard-setting project, the Board has noted that its purpose was not to expose auditors to additional private liability; rather, it was to provide information about certain participants in the audit. The Board understands, however, that disclosure in the auditor's report could trigger the consent requirement of Section 7 and subject the named parties to potential liability under Section 11 of the Securities Act. As commenters suggested, disclosure on a form filed with the PCAOB should not raise those concerns because the engagement partner and other firms would not be named in a registration statement or in any document incorporated by reference into one.[11] Commenters also raised concerns that disclosure in the auditor's report would increase the risk of potential liability in private actions under Exchange Act Section 10(b) in light of the Supreme Court's *Janus* decision.[12] The Board is seeking comment on whether disclosure on Form AP would address concerns about this liability risk.

The Board believes that Form AP could serve the same purpose as disclosure in the auditor's report. Its intended audience would be the same as the audience for the auditor's report—investors and other financial statement users—and its filing would be tied to the issuance of an auditor's report. In that respect, it would differ from the PCAOB's existing forms,[13] which are intended primarily to elicit information for the

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proposed in the 2013 Release to permit reference to other accounting firms that participated in the audit to the extent contemplated by the amendment to AU sec. 508, *Reports on Audited Financial Statements*, included in Appendix 1.

[11] While the requirement to file Form AP would be triggered by the issuance of an auditor's report, the form would not be incorporated by reference into or otherwise made part of the auditor's report.

[12] *Janus Capital Group, Inc. v. First Derivative Traders*, 131 S. Ct. 2296 (2011). As noted in the 2013 Release, while any form of public identification of the engagement partner might, at least in some circuits, make it easier for a private plaintiff to plead reliance, the plaintiff would still have to meet all the other elements of Section 10(b) liability, including, with respect to claims based on Rule 10b-5(b), that the engagement partner was the maker of the statement under the *Janus* standard.

[13] Existing PCAOB reporting forms have been developed for the purpose of registration with the Board and reporting to the Board about a firm's issuer, broker, and dealer audit practice. These forms are: (1) Form 1, *Application for Registration*; (2) Form

Board's use in connection with its oversight activities, with a secondary benefit of making as much reported information as possible available to the public as soon as possible after filing with the Board.[14] Form AP would be primarily intended as a vehicle for public disclosure, much like the auditor's report itself.[15] While information on Form AP could also benefit the Board's oversight activities, that is ancillary to the primary goal of public disclosure.

In addition to the required filing of Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Since this would not be mandatory, however, fewer disclosures in the auditor's report would be expected than under the requirements proposed in the 2013 Release. The Form AP approach may, therefore, require more effort for investors to find the information, and it thereby could impose higher search costs in some instances, given that the auditor's report is the existing vehicle by which the auditor communicates with investors and is the place where other information about the audit is already found. Form AP would require a user to visit the PCAOB website to find information disclosed on the form. However, the use of Form AP may in other circumstances result in lower search costs than disclosure in the auditor's report because investors and other financial statement users would be able to find all of the required disclosures regarding engagement partners and other audit participants in a searchable database on the Board's website. As a result, search costs would likely be lower, for example, for persons seeking information about a single engagement partner across multiple audits or about multiple audit participants.

1-WD, *Request to Withdraw from Registration*; (3) Form 2, *Annual Report*; (4) Form 3, *Special Report*; and (5) Form 4, *Succeeding to Registration Status of Predecessor*.

[14] *Periodic Reporting by Registered Public Accounting Firms*, PCAOB Release No. 2008-004 (June 10, 2008), at 28.

[15] The Board has authority under Section 103 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") to adopt, by rule, audit standards "to be used by registered public accounting firms in the preparation and issuance of audit reports . . . as may be necessary or appropriate in the public interest or for the protection of investors." In addition, under Section 102 of Sarbanes-Oxley, the Board has authority to require registered public accounting firms to submit periodic and special reports, which are publicly available unless certain conditions are met. If a firm requests confidential treatment of information under Section 102(e) of Sarbanes-Oxley, the information is not publicly disclosed unless there is a final determination that it does not meet the conditions for confidentiality. Because of the intended purpose of Form AP and the Board's related authority under Section 103 of Sarbanes-Oxley, the Board does not believe it would be appropriate to provide for confidential treatment of the information filed on Form AP as it does for certain information filed on other PCAOB forms.

In the 2013 Release, the Board observed that requiring disclosure on a PCAOB form rather than in the auditor's report could impose additional compliance costs on accounting firms, which would have to develop systems for compiling and reporting the required information. The commenters that addressed that issue—primarily large accounting firms—argued, however, that the cost of compliance with a new PCAOB form filing requirement would be significantly less than the overall costs of disclosure in the auditor's report.

Filing Requirements

The use of Form AP would afford the Board flexibility in establishing the timing of disclosure versus a requirement to disclose in the auditor's report. While the Board believes the information should be made available promptly, some time could be allowed for firms to compile the necessary information, particularly for firms that choose to submit multiple forms at the same time. The Board is considering a basic filing deadline of 30 days after the date the auditor's report is first included in a document filed with the SEC, with a shorter deadline of 10 days for initial public offerings ("IPOs") to ensure that the information would be available before any IPO road show.[16] This time period takes into account recommendations made by the commenters that suggested disclosure on a reporting form. Some of these commenters suggested a periodic filing requirement, such as quarterly reporting; others suggested filing within a specified time after the completion of the audit, such as 4 days, 30 days (consistent with Form 3), or 45 days (consistent with audit documentation requirements). Another commenter suggested that the required information should be reported prior to the filing of the definitive proxy statement. The Board is soliciting comment on the filing deadline.

Form AP would provide information only about completed audits, so there would be no requirement to file in connection with interim reviews.[17] Form AP would be

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[16] In the context of an IPO, an emerging growth company ("EGC") may confidentially submit to the SEC a draft registration statement for confidential nonpublic review by the staff of the SEC prior to public filing. For auditor's reports initially issued in connection with such a draft submission, Form AP would be required to be filed within the 10 days after the registration statement is publicly filed with the SEC. Under Securities Act Section 6(e)(1), this public filing must occur not later than 21 days before the date on which the issuer conducts a road show. The 10-day deadline the Board is considering would ensure that investors had access to the information disclosed on Form AP before the commencement of a road show.

[17] In addition, Form AP would not be required to be filed in connection with attestation engagements, for example, compliance with servicing criteria pursuant to SEC Rule 13a-18—Regulation AB. However, for audits of brokers and dealers, the total audit hours used to determine the extent of participation of other participants in the audit

required to be amended only when there was an error or omission in the original submission. Changes from one year to the next (for example, a change in engagement partner) would not necessitate an amendment and would be reflected on a Form AP that would be filed when the next auditor's report was issued. Since the obligation to file Form AP would be tied to the issuance of the auditor's report, if the auditor's report is reissued and dual-dated, a new Form AP would be required even when no other information on the form changed.

To ease compliance, firms would file Form AP through the PCAOB's existing web-based Registration, Annual, and Special Reporting system using the username and password they were issued in connection with the registration process.[18] The system requirements for filing Form AP would be similar to the system requirements for filing annual and special reports with the PCAOB. The Board would develop a template, also known as a schema, that would allow firms to submit multiple forms simultaneously using an extensible markup language ("XML").

Forms AP filed with the Board would be available on the Board's website. The Board's website would allow users to search Forms AP by engagement partner, to find the audits of companies (*i.e.*, issuers, brokers, and dealers) that he or she led (after the requirement's effective date), and by company, to find the engagement partner and other firms that worked on its audit. Over time, the PCAOB could enhance the search functionality as needed and could allow users to download the search results. It is anticipated that the information filed on Form AP would be available on the Board's website indefinitely.

V. Other Participants in the Audit

In addition to the method of disclosure, the Board is considering narrowing the disclosure requirements regarding other participants in the audit. In the 2013 Release, the Board proposed disclosure of: (1) the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and (2) the locations and extent of participation, on an aggregate basis by country, of other nonaccounting firm participants that took part in the audit. The requirements to disclose other accounting firm participants in the audit are reflected in Appendix 1 substantially

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would include hours incurred in the performance of the required attestation procedures. *See* Section VIII.

[18] Firms that are not registered with the Board would not be required to file Form AP, even when conducting audits in accordance with PCAOB standards. While not required, these firms could still voluntarily include this information in the auditor's report.

as reproposed. However, in light of comments received, the Board is reexamining the proposed requirements to disclose information about nonaccounting firm participants and engaged specialists.

Nonaccounting Firm Participants

As proposed in the 2013 Release, the category of nonaccounting firm participants might include, among others, certain "offshore" service centers, consultants, and entities that provide accounting firms with leased employees. The disclosures would permit investors to determine how much of the audit was performed by nonaccounting firm participants in a particular jurisdiction but not whether those nonaccounting firm participants were, for example, offshore service centers, consultants, or another type of entity that worked on the audit.

Under the 2013 Release, disclosure of the names of nonaccounting firm participants would not have been required. Rather, these participants would have been identified in the auditor's report as "persons in [country] not employed by our firm." Commenters' reactions to the reproposed disclosure requirements were mixed. Some commenters argued for uniform treatment of accounting firm participants and nonaccounting firm participants, either to make disclosure easier to understand or to avoid the creation of incentives to engage nonaccounting firm participants rather than other accounting firms. Other commenters questioned the value of the disclosures or suggested that the disclosures could be confusing or subject to misinterpretation.

After considering these comments, the Board is reconsidering the appropriateness of the disclosures regarding nonaccounting firm participants. As such, Appendix 1 does not include proposed requirements to disclose information regarding nonaccounting firm participants. The Board is, however, continuing to seek additional comment on whether it should adopt disclosure requirements concerning nonaccounting firm participants at this time.[19]

If, after considering the comments, the Board were to require disclosure regarding nonaccounting firm participants, the Board is also considering a more tailored approach than proposed in the 2013 Release. The more tailored approach, recommended by a commenter, would not require reporting if the nonaccounting firm participants were controlled by or under common control with the accounting firm issuing the auditor's report. The commenter suggested that disclosure of such situations

[19] The proposed disclosure requirements regarding nonaccounting firm participants can be found in Appendix 2 of the 2013 Release at A2-1. If the Board were to adopt a disclosure requirement with regard to nonaccounting firm participants in Form AP, the instructions to Form AP would be revised for that disclosure.

would not provide useful information because such entities function as an "office" of the registered firm, and the fact that they are formed as separate legal entities would not impact the work performed.

Under this more tailored approach, disclosure of certain information about nonaccounting firm participants in the audit could be required if, in the current period, the auditor was required to supervise[20] other persons that are not: (1) other accounting firms; (2) the auditor's own employees; or (3) entities that are controlled by or are under common control with the auditor, or employees of such entities. Control could be defined for that purpose as the power to direct or cause the direction of management and policies of the participant, whether through the ownership of voting securities, by contract, or otherwise.[21]

The Board is seeking comment on retaining disclosures of nonaccounting firm participants and this more tailored approach to disclosure of nonaccounting firm participants to the extent the disclosures are retained.[22]

Engaged Specialists

The disclosure requirements and computation of total audit hours presented in Appendix 1 have been modified to exclude specialists engaged, not employed, by the auditor. This change responds to commenters' concerns that smaller firms, which are more likely to use engaged specialists, would have to disclose other participants more frequently than larger firms that employ specialists, which could place a disproportionate burden on smaller firms.

VI. Economic Considerations

The 2013 Release described the need for the disclosure requirements, as well as the alternatives the Board had considered to meet that need, and discussed potential benefits and costs of the proposed disclosure requirements, including potential indirect costs related to any increase in private liability.[23] Appendix 2 to this release includes

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[20] *See* Auditing Standard No. 10, *Supervision of the Audit Engagement.*

[21] This would mirror the definition of "control" in some Securities Act and Exchange Act rules. *See, e.g.,* 17 CFR § 230.405 and § 240.12b-2.

[22] Regardless of the determination as to disclosure requirements, the hours of such persons would continue to be included in total audit hours.

[23] 2013 Release at 25, 31. The Board continues to consider comments on the economic analysis included in the 2013 Release.

further discussion on the economic considerations related to the disclosure requirements the Board is considering. This release seeks comment on economic considerations related to disclosure on Form AP as compared to disclosure in the auditor's report, as discussed in Section IV, and on the potential changes to disclosure about other participants in the audit, as discussed in Section V.

Disclosure on Form AP Compared to Disclosure in the Auditor's Report

The Board is considering trade-offs as it evaluates the potential of these two different disclosure mechanisms to achieve the benefits of disclosure—transparency and an increased sense of accountability. Disclosure would publicly associate the engagement partner with the work performed. Accounting firms would similarly be publicly associated with their choices of engagement partners and their choices of other firms participating in the audit. These benefits depend, in part, on the extent to which the information would be made available and accessible so that market participants could use it. The Board is soliciting comment on the extent to which the form-based alternative discussed in this release would achieve these benefits compared to mandatory disclosure in the auditor's report as proposed in the 2013 Release.

As explained in Section III, the Board is considering a form-based alternative because of concerns expressed by some commenters about private liability. The Form AP alternative responds to those concerns by providing for disclosure outside the auditor's report. Since auditors would not be required to make the disclosure in the auditor's report, no auditor would be required to incur costs related to obtaining consents or to the increased risk of private liability under Section 11 of the Securities Act that might come with disclosure in the auditor's report. Such costs would presumably be incurred only if the auditor expected disclosure in the auditor's report in addition to Form AP to produce a net benefit.

The Form AP approach may involve higher direct costs than disclosure in the auditor's report, particularly when first implemented. Registered firms would presumably incur substantially the same direct costs to gather the necessary information, whether disclosure was made in the auditor's report or on the form. Those costs are described in the 2013 Release and Appendix 2 of this supplemental request for comment. However, use of Form AP would entail some additional costs to fill out the form and file it with the Board, and it could also result in the need for firms to develop a system to gather the required information from each engagement team. As described in Section III, however, commenters suggested that the cost of compliance with a new PCAOB filing requirement would not be significant.

Regardless of whether the information is disclosed in the auditor's report as previously proposed or on Form AP, data providers may develop methodologies to compile the information,[24] and investors that are interested in analyzing the information should be able to find it regardless of where it is disclosed.[25] The Board is seeking comments on whether there are cost-effective ways, including search criteria or functionalities, to make this disclosure more broadly accessible to investors who may not be familiar with filings by firms on forms available on the Board's website.

Nonaccounting Firm Participants in the Audit and Engaged Specialists

In considering whether to eliminate or narrow proposed disclosure requirements regarding nonaccounting firm participants in the audit and engaged specialists as described in Section V, the Board is considering trade-offs and seeks to strike an appropriate balance between the potential value to investors and other financial statement users of the proposed disclosures and the costs of compliance. For example, one commenter suggested that requiring less disclosure for nonaccounting firm participants than for other accounting firms may create an incentive for auditors to engage nonaccounting firms in order to avoid disclosure, which could negatively affect audit quality. On the other hand, other commenters stated that disclosures regarding nonaccounting firm participants could be distracting or subject to misinterpretation. With respect to engaged specialists, commenters have expressed concern that the proposed disclosure requirements may impose a disproportionate burden on smaller firms, which are more likely than larger firms to engage rather than employ specialists. The Board is seeking comment on these issues.

VII. Considerations for Audits of Emerging Growth Companies

Pursuant to Section 104 of the Jumpstart Our Business Startups ("JOBS") Act, any rules adopted by the Board subsequent to April 5, 2012, do not apply to the audits of EGCs (as defined in Section 3(a)(80) of the Exchange Act) unless the SEC "determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and

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[24] Some data providers sell subscriptions or charge a fee, while others make information available free of charge.

[25] It is not uncommon for market participants to look to multiple sources for information required to be disclosed pursuant to the federal securities laws. For example, information may be incorporated by reference from one SEC filing to another. Also, some SEC rules allow issuers a choice of disclosure location for certain information. *See, e.g.,* Item 406 of Regulation S-K, CFR § 229.406 (choice of location for disclosure regarding the company's code of ethics).

whether the action will promote efficiency, competition, and capital formation."[26] As a result of the JOBS Act, the amendments to PCAOB rules and standards that are included in this supplemental request for comment, if adopted by the Board, would be subject to a separate determination by the SEC regarding their applicability to audits of EGCs.

Generally, the costs of making disclosure on Form AP, which are discussed in Section VI, would be equally applicable to all auditors, including auditors of EGCs. As noted above, the Form AP approach may involve more direct costs than disclosure in the auditor's report, such as costs associated with preparing and filing the form, but disclosure in the auditor's report may have more indirect costs, such as potential liability that could arise if the auditor's report is included in a Securities Act registration statement. Such direct costs would be borne with respect to audits of all companies, but such indirect costs may have less impact for auditors of companies that do not regularly conduct registered offerings of securities (including auditors of EGCs that do not regularly conduct such offerings).

In the 2013 Release, the Board discussed and sought comment on the applicability of the proposed disclosure requirements to audits of EGCs. The Board continues to consider comments received in response to the 2013 Release. In addition, the Board seeks further comment, including any available empirical data, on how disclosure on Form AP would affect EGCs and on whether it would protect investors and promote efficiency, competition, and capital formation.

VIII. Application to Audits of Brokers and Dealers

Pursuant to Exchange Act Rule 17a-5, brokers and dealers are generally required to file annual reports with the SEC and other regulators.[27] The annual reports include a financial report, either a compliance report or exemption report, and reports by the auditor covering the financial report and the compliance report or exemption report. The annual reports are public, except that if the statement of financial condition in the financial report is bound separately from the balance of the annual report, the balance of the annual report is deemed confidential and nonpublic.[28] Therefore, in situations in which the broker or dealer binds the statement of financial condition separately from the balance of the annual report, the auditor generally would issue two separate auditor's

[26] Pub. L. No. 112-106 (April 5, 2012). *See* Section 103(a)(3)(C) of Sarbanes-Oxley, (15 U.S.C. §7213(a)(3)), as added by Section 104 of the JOBS Act.

[27] *See* 17 CFR § 240.17a-5.

[28] *See* Exchange Act Rule 17a-5(e), 17 CFR § 240.17a-5(e).

reports that would have different content: (1) an auditor's report on the statement of financial condition that would be available to the public and (2) an auditor's report on the complete annual report that, except as provided in paragraph (c)(2)(iv) of Exchange Act Rule 17a-5, would be confidential and not available to the public.[29]

In such cases, only one Form AP would be required. The audit hours used to determine the extent of participation of other accounting firms participating in the audit would include hours incurred in the performance of: (1) the audit of the financial statements; (2) audit procedures performed on supplemental information; and (3) attestation procedures performed in accordance with Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, or Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*.

The Board solicited comment regarding the applicability of the requirements to audits of brokers and dealers in the 2013 Release. Some commenters indicated that the requirements should apply equally to all audits performed in accordance with PCAOB standards, while others opposed the requirements for audits of nonissuer brokers or dealers.

The Board continues to consider these comments. The Board is also seeking comment on whether Form AP presents specific issues with respect to audits of brokers and dealers.

IX. Appendices

This supplemental request for comment includes this release and its appendices:

- Appendix 1 contains the proposed amendments to the Board's rules and PCAOB auditing standards related to disclosure of the name of the engagement partner and certain information about other accounting firms on Form AP and proposed form instructions.

- Appendix 2 contains economic considerations related to the disclosure requirements.

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[29] *See also* Exchange Act Rule 17a-5(c)(2), 17 CFR § 240.17a-5(c)(2), regarding audited statements required to be provided to customers.

X. Effective Date

At this time, the Board is considering making the requirements effective for auditors' reports issued or reissued on or after June 30, 2016, or three months after approval of the requirements by the SEC, whichever occurs later.

XI. Opportunity for Public Comment

The Board is seeking comment on all aspects of the Form AP alternative, including how Form AP compares to the disclosure in the auditor's report proposed in the 2013 Release, its economic implications, and whether there are any special considerations relevant to audits of EGCs, brokers and dealers, and other entities. The Board is also interested in any issues related to the Form AP instructions and filing process and how the Board might address them. In addition, the Board seeks comments on the following more specific questions:

1. Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?

2. Are there special considerations relating to the Form AP approach that have not been addressed in this supplemental request for comment? If so, what are the considerations? How might the Board address them? What are the costs of Form AP compared to the costs of disclosure in the auditor's report?

3. Would disclosure on Form AP mitigate commenters' concerns about liability? Are there potential unintended consequences, including liability-related consequences under federal or state law, of the Form AP approach? If so, what are the consequences? How might the Board address them?

4. In addition to the required filing of the Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report? If so, what are those considerations or consequences? How might the Board address them?

5. What search criteria and functionality would users want for information filed on Form AP? What additional criteria and functionality beyond what is described in Section IV of this release would be useful? Would third-party

vendors provide additional functionality if the Board does not? Are there cost-effective ways to make the disclosure more broadly accessible to investors who may not be familiar with PCAOB forms?

6. Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP? Should the deadline be shorter or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (*e.g.*, 60 days) in the first year of implementation? Should the 10-day deadline apply whenever the auditor's report is included in a Securities Act registration statement, not just in the case of an IPO?

7. This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V? If the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficiently clear? Why or why not? Is the definition of control in Section V appropriate? Why or why not?

8. Does Form AP pose any specific issues for EGCs? Would disclosure of the required information on Form AP promote efficiency, competition, and capital formation if applied to EGCs? If so, how? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard? Would creating an exemption for audits of EGCs benefit or harm EGCs or their investors? Why?

9. Does Form AP pose any specific issues for brokers, dealers, or other entities? If so, what are those issues? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard?

10. Are the rule to implement Form AP, the instructions to Form AP, and the amendments to AU sec. 508 included in Appendix 1 clear and appropriate? Why or why not?

11. Are there additional economic considerations associated with mandated disclosure, either in the auditor's report or on Form AP, that the Board should consider? If so, what are those considerations? The Board is particularly interested in hearing from academics and in receiving any available empirical data commenters can provide.

12. Assuming the Board adopts a rule during 2015, would it be feasible to make the requirement, either in the auditor's report or on Form AP, effective for auditors' reports issued or reissued on or after June 30, 2016, or three months after the SEC approves the requirements, whichever is later? How much time following SEC approval would firms need to implement the requirement either in the auditor's report or on Form AP?

Interested persons are encouraged to submit their views to the Board. Written comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803. Comments also may be submitted by e-mail to comments@pcaobus.org or through the Board's website at http://www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 029 in the subject or reference line and should be received by the Board no later than 5:00 p.m. EDT on August 31, 2015. The Board will consider comments received.

On the 30th day of June, in the year 2015, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

June 30, 2015

APPENDIX 1

Amendments to Rules of the Board to Require Disclosure of Certain Participants in the Audit on Form AP

Section 3. Auditing and Related Professional Practice Standards

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Rule 3210. Signatures and Amendments

The provisions of Rule 2204 concerning signatures and Rule 2205 concerning amendments shall apply to any form filed pursuant to this Part of the Rules of the Board as if the submission were a report on Form 3.

Rule 3211. Auditor Reporting of Certain Audit Participants

(a) For each audit report issued pursuant to PCAOB standards for the audit of an issuer or broker or dealer, each registered public accounting firm must file with the Board a report on Form AP in accordance with the instructions to that form.

Note: Form AP is not required to be filed by a public accounting firm that is another auditor pursuant to AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, whose audit report is issued in accordance with PCAOB standards and is referred to by the registered public accounting firm in accordance with AU sec. 543.07.

(b) Form AP is deemed to be timely filed if—

1. The form is filed by the 30th day after the date the audit report is first included in a document filed with the Commission; or

2. In circumstances where the company had no obligation to file, and did not file, periodic or other reports or registration statements with the Commission as of the auditor's report date, the registered public accounting firm files the form by the 10th day after the date the auditor's report is first included in a document filed with the Commission.

(c) Unless directed otherwise by the Board, a registered public accounting firm must file such report electronically with the Board through the Board's web-based system.

(d) A report on information about the audit of an issuer or broker or dealer on Form AP shall be deemed to be filed on the date that the registered public accounting firm submits a Form AP in accordance with this Rule that includes the signed certification in Part VI of Form AP.

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FORM AP—AUDITOR REPORTING OF CERTAIN AUDIT PARTICIPANTS

GENERAL INSTRUCTIONS

1. Submission of This Report. Effective **[insert effective date of Rule 3211]*,*** a *registered public accounting firm* must use this Form to file with the *Board* information about the audit of an *issuer* or *broker* or *dealer* required by Rule 3211 and to file any amendments to this Form. Unless otherwise directed by the *Board*, the *registered public accounting firm* must file this Form electronically with the *Board* through the *Board's* web-based system.

2. Defined Terms*.* The definitions in the *Board's rules* apply to this Form. Italicized terms in the instructions to this Form are defined in the *Board's rules*. In addition, as used in the instructions to this Form, the term "the Firm" means the *registered public accounting firm* that is filing this Form with the *Board*.

3. When This Report is Considered Filed*.* A report on information about the *audit* of an *issuer* or *broker* or *dealer* is considered filed when the Firm has submitted to the *Board* a Form AP in accordance with Rule 3211 that includes the signed certification required by Part VI of Form AP.

4. Amendments to This Report. Amendments shall not be filed to update information in a filed Form AP that was correct at the time the Form was filed, but only to correct information that was incorrect at the time the Form was filed or to provide information that was omitted from the Form and was required to be provided at the time the Form was filed. When filing a Form AP to amend an earlier filed Form AP, the Firm must supply not only the corrected or supplemental information, but it must include in the amended Form AP all information, affirmations, and certifications that were required to be included in the original Form AP. The Firm may access the originally filed Form AP through

the *Board*'s web-based system and make the appropriate amendments without needing to reenter all other information.

Note: The *Board* will designate an amendment to a report on information about the audit of an *issuer* or *broker* or *dealer* as a report on "Form AP/A."

5. *Rules* Governing This Report. In addition to these instructions, the *rules* contained in Part 1 of Section 3 of the *Board's rules* govern this Form. Read these *rules* and the instructions carefully before completing this Form.

6. Language. Information submitted as part of this Form, must be in the English language.

PART I—IDENTITY OF THE FIRM

In Part I, the Firm should provide information that is current as of the date of the certification in Part VI.

Item 1.1 Name of the Firm

a. State the legal name of the Firm.

b. If different than its legal name, state the name under which the Firm issued this *audit report*.

Item 1.2 Location of the Firm's Office

a. City and state (or, if outside the United States, city and country) of the office of the Firm issuing the *audit report*.

PART II—GENERAL INFORMATION CONCERNING THE FILING OF THIS FORM

Item 2.1 Amendments

If this is an amendment to a report previously filed with the *Board*:

a. Indicate, by checking the box corresponding to this item, that this is an amendment.

b. Identify the specific Part or Item number(s) in this Form (other than this Item 2.1) as to which the Firm's response has changed from that provided in the most recent Form AP or amended Form AP filed by the Firm with respect to an *audit report* related to the *issuer* or *broker* or *dealer* named in Item 3.1.a.1.

PART III—*AUDIT* CLIENT AND *AUDIT REPORT*

Item 3.1 *Audit Report*

a. Provide the following information concerning the *issuer* or *broker* or *dealer* for which the Firm issued the *audit report* –

1. Indicate, by checking the box corresponding to this item, if the *audit* client is an *issuer*, other than an employee benefit plan or investment company; a *broker* or *dealer*; an employee benefit plan; or an investment company;

2. The Central Index Key (CIK) number, if any, or *broker's* or *dealer's* Central Registration Depository (CRD) number, or Series identifier, if any;

3. The name of the *issuer* or *broker* or *dealer* whose financial statements were audited;

4. The date of the *audit report*;

5. The end date of the current period's financial statements identified in the *audit report*; and

6. Name (that is, first and last name and any middle name(s) and suffix) of the engagement partner on the current period's *audit*.

b. Indicate, by checking the box corresponding to this item, if the current period and one or more other periods presented in the financial statements identified in Item 3.1.a.5 were audited during a single *audit* engagement.

c. In the event of an affirmative response to Item 3.1.b, indicate the periods audited during the single *audit* engagement for which the individual named in Item 3.1.a.6 served as engagement partner (for example, as of and for the two years ended December 31, 20XX).

d. Indicate, by checking the box corresponding to this item, if the *audit report* was dual-dated.

e. In the event of an affirmative response to Item 3.1.d, indicate the date of the dual-dated information and if different from the engagement partner named in Item 3.1.a.6, the name of the engagement partner who audited the information within the financial statements to which the dual-dated opinion applies.

f. Indicate, by checking the box corresponding to this item, if other *public accounting firm*(*s*) took part in the *audit*. If this item is checked, complete Part IV. By checking this box, the Firm is stating that it is responsible for the *audits* or *audit* procedures performed by the other *public accounting firm*(*s*) identified in Part IV and has supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards.

g. Indicate, by checking the box corresponding to this item, if the Firm divided responsibility for the *audit* pursuant to PCAOB standards, with one or more other *public accounting firm*(*s*). If this item is checked, complete Part V.

Note: In responding to Item 3.1.e, the Firm should provide each date of any dual-dated *audit report*.

Note: In responding to Item 3.1.f, other *public accounting firms* that took part in the *audit* do not include the *public accounting firm*(*s*) with which the Firm divided responsibility for the *audit* and whose report the Firm made reference to pursuant to PCAOB standards.

PART IV—RESPONSIBILITY FOR THE *AUDIT* IS NOT DIVIDED

In responding to Part IV, total *audit* hours in the current period's *audit* should be comprised of hours attributable to: (1) the financial statement *audit*; (2) reviews pursuant to AU sec. 722, *Interim Financial Information*; (3) the *audit* of internal control over financial reporting pursuant to Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*; (4) audit procedures performed on supplemental information, pursuant to Auditing Standard No. 17, *Auditing Supplemental Information Accompanying Audited Financial Statements*; and (5) attestation procedures performed in accordance with Attestation Standard No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers,* or Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*. Excluded from the disclosure and from total *audit* hours in the current period's *audit* are: (1) the engagement quality reviewer; (2) the person who performed the review pursuant to Securities and Exchange Commission Practice Section 1000.45 Appendix K; (3) specialists engaged, not employed, by the Firm; (4) internal auditors, other company personnel, or third parties working under the direction of management or the audit committee who provided direct assistance in the *audit* of internal control over financial reporting; and (5) internal auditors who provided direct assistance in the *audit* of the financial statements.

In responding to Part IV, if the financial statements for the current period and one or more other periods covered by the *audit report* identified in Item 3.1.a.4 were audited during a single *audit* engagement (for example, in a reaudit of a prior period(s)), the calculation should be based on the percentage of audit hours attributable to the *audits* or *audit* procedures performed by such firms in relation to the total *audit* hours for the periods identified in Item 3.1.c.

Indicate, by checking the box, if the extent of participation in Part IV will be presented within ranges.

Item 4.1 Other *Public Accounting Firm*(*s*) Individually 5% or Greater of Total *Audit* Hours

a. State the legal name of other *public accounting firms* and the extent of participation in the *audit*—as a single number or within the appropriate range of the percentage of hours, according to the following list—attributable to the *audits* or audit procedures performed by such *public accounting firm* in relation to the total hours in the current period's *audit*.

90%-or-more of total *audit* hours;
80% to less than 90% of total *audit* hours;
70% to less than 80% of total *audit* hours;
60% to less than 70% of total *audit* hours;
50% to less than 60% of total *audit* hours;
40% to less than 50% of total *audit* hours;
30% to less than 40% of total *audit* hours;
20% to less than 30% of total *audit* hours;
10% to less than 20% of total *audit* hours; and
5% to less than 10% of total *audit* hours.

b. For each *public accounting firm* named, state the country of the headquarters' office.

Note: In responding to Items 4.1 and 4.2, percentage of hours attributable to other firms should be calculated individually for each firm. If the individual participation of one or more other *public accounting firm*(*s*) is less than 5%, the Firm should complete Item 4.2.

Item 4.2 Other *Public Accounting Firm*(*s*) Individually Less Than 5% of Total *Audit* Hours

a. State the number of other *public accounting firm*(*s*) individually representing less than 5% of total *audit* hours.

b. Indicate the aggregate percentage of participation of the other *public accounting firm*(*s*) that individually represented less than 5% of total *audit* hours by—filling in a single number or by selecting the appropriate range as follows:

90%-or-more of total *audit* hours;
80% to less than 90% of total *audit* hours;
70% to less than 80% of total *audit* hours;

60% to less than 70% of total *audit* hours;
50% to less than 60% of total *audit* hours;
40% to less than 50% of total *audit* hours;
30% to less than 40% of total *audit* hours;
20% to less than 30% of total *audit* hours;
10% to less than 20% of total *audit* hours;
5% to less than 10% of total *audit* hours; and
Less-than-5% of total *audit* hours.

PART V—RESPONSIBILITY FOR THE *AUDIT* IS DIVIDED

Item 5.1 Identity of the Other *Auditor*(*s*)

a. Provide the following information concerning each other *auditor* the Firm divided responsibility with in the *audit*—

1. State the legal name of the other *auditor*.

2. State the country of headquarters' office location of the other *auditor*.

3. State the magnitude of the portion of the financial statements audited by the other *auditor*.

Note: In responding to Item 5.1.a.3, the Firm should state the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, as it is described in the *audit report*.

PART VI—CERTIFICATION OF THE FIRM

Item 6.1 Signature of Partner or Authorized Officer

This Form must be signed on behalf of the Firm by an authorized partner or officer of the Firm including, in accordance with Rule 3210, both a signature that appears in typed form within the electronic submission and a corresponding manual signature retained by the Firm. The signer must certify that:

a. The signer is authorized to sign this Form on behalf of the Firm;

b. The signer has reviewed this Form;

c. Based on the signer's knowledge, this Form does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading; and

d. Based on the signer's knowledge, the Firm has not failed to include in this Form any information or affirmation that is required by the instructions to this Form.

The signature must be accompanied by the signer's title, the capacity in which the signer signed the Form, the date of signature, and the signer's business mailing address, business telephone number, and business e-mail address.

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Amendments to PCAOB Auditing Standards for Optional Disclosure of Certain Audit Participants in the Auditor's Report

AU sec. 508, *Reports on Audited Financial Statements*

SAS No. 58, "Reports on Audited Financial Statements" (AU sec. 508, *Reports on Audited Financial Statements*), as amended, is amended as follows:

a. Paragraph .09A is added, as follows:

> The auditor may include in the auditor's report the information regarding the engagement partner and other participants in the audit that is required to be reported to the PCAOB pursuant to Rule 3211, *Auditor Reporting of Certain Audit Participants*. If the auditor chooses to do so, the auditor's report must include the same information as is reported on Form AP. If disclosure is included regarding other participants in the audit, the auditor also should include a statement that the auditor is responsible for the audits or audit procedures performed by the other firms and has supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards.

APPENDIX 2

Economic Considerations

The Public Company Accounting Oversight Board ("PCAOB" or "Board") is mindful of the economic impacts of its standard setting. The following discussion addresses in detail the potential economic impacts, including potential benefits and costs, most recently considered by the Board.

The Board has requested input from commenters several times over the course of the rulemaking. Commenters provided views on a wide range of issues pertinent to economic considerations, including potential benefits and costs, but did not provide empirical data. The potential benefits and costs considered by the Board are difficult to quantify reliably, so the Board's economic discussion is therefore qualitative in nature. This appendix describes the Board's current analysis about the likely economic impacts of the disclosure requirements under consideration. The Board continues to solicit input from commenters about how the disclosure requirements under consideration may impact the audit profession and financial markets, as well as input specifically related to the Board's economic analysis.

A. Need for Disclosure

Users of financial statements are generally not in a position to observe the quality of the audit of a public company or the factors that drive audit quality. Instead, they rely on proxies such as the reputation of the accounting firm issuing the auditor's report, measures of auditor expertise, or information about the geographic location of the office where the auditor's report was signed as a signal for audit quality.[1] The Board is considering a number of ways to provide a more precise signal of audit quality. In addition to the disclosures discussed in this supplemental request for comment and the 2013 Release, these efforts include formulation of a series of audit quality indicators, a portfolio of quantitative measures that may provide new insights into how quality audits are achieved.[2] The Board intends that, over time, these and other efforts may provide additional information that may allow investors and other financial statement users to

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[1] *See, e.g.*, Linda Elizabeth DeAngelo, *Auditor Size and Audit Quality*, 3 Journal of Accounting and Economics 183 *passim* (1981); and Jere R. Francis, *What Do We Know About Audit Quality?*, 36 The British Accounting Review 345 *passim* (2004).

[2] *See Concept Release on Audit Quality Indicators*, PCAOB Release No. 2015-005 (June 30, 2015).

better evaluate audit quality. When used in conjunction with other publicly available data and potential audit quality indicators, the name of the engagement partner and information about other participants in the audit, collectively, could provide a more precise signal of audit quality.[3] For example, users of financial statements could seek to reduce the asymmetric information[4] about audit quality by gathering information about the skills, expertise, and independence of the specific individuals and firms that participate in the audit.

PCAOB oversight activities show that audit quality varies among engagement partners within the same firm. PCAOB oversight activities also reveal variations in audit quality within the global networks established by large accounting firms. In addition to a number of other factors, the PCAOB uses information about engagement partners and other participants in the audit to identify audit engagements for risk-based selections in its inspections program. Academic research also documents variations in audit quality at both the firm and engagement partner levels.[5] These findings suggest that firm reputation is an imprecise signal of audit quality because engagement partners and other audit participants differ in the quality of their audit work.

The difficulty that investors and other financial statement users have in evaluating audit quality may have important effects for accounting firms and the

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[3] Information economics frequently treats information as consisting of two components: a signal that conveys information and noise, which inhibits the interpretation of the signal. Precision is the inverse of noise so that decreased noise results in increased precision and a more readily interpretable signal. *See*, *e.g.*, Robert E. Verrecchia, *The Use of Mathematical Models in Financial Accounting*, 20 Journal of Accounting Research 1 *passim* (1982).

[4] Economists often describe information asymmetry as an imbalance, where one party has more or better information than another party.

[5] *See, e.g.*, W. Robert Knechel, Ann Vanstraelen, and Mikko Zerni, *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*, Contemporary Accounting Research (forthcoming 2015); Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, *Capital Market Consequences of Audit Partner Quality*, The Accounting Review (forthcoming 2015); and Carol Callaway Dee, Ayalew Lulseged, and Tianming Zhang, *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings*, The Accounting Review (forthcoming 2015). Professors Dee and Aobdia are research fellows at the PCAOB. Their research cited above was undertaken prior to joining the PCAOB.

functioning of the audit profession and capital markets.[6] The capacity to differentiate between alternative products is a fundamental requirement of competitive markets.[7] One way to improve the functioning of a market is to provide mechanisms that enable market participants to better evaluate quality, thereby reducing the degree of information asymmetry.

Mandatory disclosure provides financial markets with information that may have otherwise been more costly or difficult to obtain. This information may influence investors' decisions and allow them to make better informed investment decisions. The disclosure of information may also lead identified parties to change their behavior because they know their performance can be more easily observed and evaluated. In general, an important feature of accountability is identifiability.[8] In the context of the audit, transparency about audit participants may lead to increased accountability because decision makers can use the disclosed information to identify participants separately from the accounting firm signing the auditor's report. The ability for outsiders to identify and evaluate the performance of individual audit participants may induce these individuals to change their behavior.

Because of the influence that engagement partners and other audit participants can exert over the audit process, more specific information about who actually performed the audit of a particular company could be a useful addition to the mix of information that investors can use to assess audit quality and financial reporting risk. As identifying information becomes publicly available, it could also provide a further incentive to engagement partners and other accounting firms that participate in the audit

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[6] There is a long stream of research regarding the effects that information asymmetry about product features, such as quality, and disclosure have on markets. *See, e.g.*, George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 84 The Quarterly Journal of Economics 488 *passim* (1970); and Robert E. Verrecchia, *Essays on Disclosure*, 32 Journal of Accounting and Economics 97 (2001).

[7] *See, e.g.*, George J. Stigler, *Perfect Competition, Historically Contemplated*, 65 The Journal of Political Economy 1 *passim* (1957).

[8] Academic research finds accountability is a complex phenomenon and is affected by numerous factors. *See, e.g.*, Jennifer Lerner & Philip Tetlock, *Accounting for the Effects of Accountability*, 125 Psychological Bulletin 255 *passim* (1999). *See also* Todd DeZoort, Paul Harrison, and Mark Taylor, *Accountability and Auditors' Materiality Judgments: The Effects of Differential Pressure Strength on Conservatism, Variability, and Effort,* 31 Accounting, Organizations and Society 373 (2006).

to develop and enhance a personal reputation for providing reliable audits and to avoid being associated with adverse audit outcomes that could be attributed to deficiencies in their audit work.[9]

Under the disclosures considered by the Board, investors would gain additional information that could help them assess the reputation of not only the firm, but also of the engagement partner on the audits of companies in which they invest, which they can use as a signal for audit quality. Likewise, investors would have visibility into the extent of the audit work being performed by other accounting firms that participated in the audit, including accounting firms in jurisdictions where the PCAOB has been unable to conduct inspections. Collectively, the disclosures can facilitate the investor's ability to assess audit quality and financial reporting risk by providing investors with information about who conducted the audit and the extent to which the accounting firm signing the auditor's report relied on audit work performed by other accounting firms.[10]

Although the disclosure of the name of the engagement partner might provide limited information initially, the experiences in other countries suggest that over time the disclosures would allow databases to be developed that could link the engagement partner to other data points,[11] including:

- Number of other public company, broker, and dealer engagements in which the partner is the engagement partner;
- Industry experience of the engagement partner;
- Number and nature of restatements of financial statements for which he or she was the engagement partner;

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9 Adverse audit outcomes may include financial statement restatements for errors, nontimely reporting of internal control weaknesses, and nontimely reporting of going concern issues, among others.

10 As discussed in previous releases, PCAOB oversight activities have revealed instances in which the accounting firm signing the auditor's report may have exercised undue reliance on the audit work of other accounting firms.

11 For example, the Taiwan Economic Journal collects data that covers all public companies in Taiwan and includes, among other things, the names of the engagement partners, the accounting firms issuing auditors' reports, the regulatory sanction history of the partners, and the audit opinions. For more information, refer to http://www.finasia.biz/ensite/Database/tabid/92/language/en-US/Default.aspx.

- Number and nature of going concern report modifications on financial statements for which he or she was the engagement partner;

- Number of auditors' reports citing a material weakness in internal control over financial reporting for which he or she was the engagement partner;

- Number of years as the engagement partner of a particular company;

- Disciplinary proceedings and litigation in which the engagement partner was involved; and

- Other information about the engagement partner in the public domain, such as education, professional titles and qualifications, and association memberships.

Additional information sources may also develop about other firms that participate in public company audits, and additional data points should add to the mix of information that investors would be able to use, such as:

- The extent of the audit performed by the firm signing the auditor's report;

- The extent of participation in the audit by other firms in other jurisdictions, including jurisdictions in which the PCAOB cannot currently conduct inspections;[12]

- Whether the other firms are registered with the PCAOB, have been inspected, and the inspection results, if any;

- Industry experience of the other firms;

- Whether the other firms belong to a global network;

- Trends and changes in the level of participation of other firms in the audit work; and

- Disciplinary proceedings and litigation involving the other firms.

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[12] *See Non-U.S. Firm Inspections* on the PCAOB's website for information about firms in non-U.S. jurisdictions that deny PCAOB inspection access.

These data points, when analyzed together with the audited financial statements, potential audit quality indicators, and information provided in the auditor's report or on Form AP, could provide investors with a more precise signal about the quality of the audit and, therefore, the reliability of the financial statements. This signal should reduce the level of information asymmetry about audit quality between company management and investors.

Providing investors with data at this level of specificity would add to the mix of information that they can use. This could induce changes in the market dynamics for audit services because investors should be able to identify engagement partners and other firms that took part in the audit in whom they have confidence. The companies audited by these engagement partners and other firms should benefit from a lower cost of capital relative to those companies whose auditor's performance record suggests a higher risk.[13]

As some engagement partners and other accounting firms that participated in the audit develop a public reputation for performing reliable audits, a further incentive may develop for others to attract similarly favorable attention. Conversely, as some engagement partners and other accounting firms are associated with adverse audit outcomes, others may have additional incentives to perform audits that comply with applicable standards in order to avoid similar association. The disclosures may also create additional incentives for audit committees to engage auditors with a reputation for performing reliable audits. As a result, the disclosures under consideration may also promote increased competition based on audit quality.

1. Baseline

Current PCAOB rules and standards do not require registered firms to publicly disclose the name of the engagement partner or information about other accounting firms participating in the audit and nonaccounting firm participants. However, company management and the audit committee interact directly with the engagement partner.

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[13] There is an emerging body of academic research analyzing market reactions to disclosure of the engagement partner and the firms participating in audits. *See* Knechel et al., *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*; Aobdia et al., *Capital Market Consequences of Audit Partner Quality*; and Dee et al., *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings*.

Additionally, auditors are required to communicate to the audit committee certain information about other accounting firms and other participants in the audit.[14]

Today, the name of the engagement partner is disclosed in auditors' reports filed with the U.S. Securities and Exchange Commission ("SEC" or "Commission") in only a small percentage of cases, such as when the audit is conducted by a firm having only one certified public accountant whose name appears in the firm's name or by a foreign firm in a jurisdiction in which local requirements or practice norms dictate identification of the engagement partner. The identity of the engagement partner is sometimes made available, for example to investors attending an annual shareholders' meeting or to members of the audit committee in a proposal for audit services, but there is no uniform disclosure. Further, the process of acquiring this information may be costly. For example, investors could incur significant transaction costs[15] to attend annual meetings and the usefulness of the information they could gather would still be lower relative to the existence of a database that covers audits across time and is available to all interested users. As a result, it is difficult for most investors and other financial statement users to identify the engagement partner in the current environment.

With respect to other firms participating in the audit, paragraph .04 of AU sec. 543, *Part of the Audit Performed by Other Independent Auditors*, has prohibited principal auditors from disclosing in the auditor's report the identities of other firms that participated in the audit unless it is a divided-responsibility opinion.[16] However, investors

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[14] *See* Auditing Standard No. 16, *Communications with Audit Committees*.

[15] These transaction costs could include, among other costs, travel costs, and the costs of gaining access to the annual meeting which may be restricted to shareholders entitled to vote and thus may exclude other types of investors, such as bondholders, as well as prospective investors.

[16] The sentence in AU sec. 543.04 that states that if the principal auditor decides not to make reference to the work of other auditors, the principal auditor "should not state in his report that part of the audit was made by another auditor because to do so may cause a reader to misinterpret the degree of responsibility being assumed" would be deleted under the proposed amendments in the 2013 Release. In the Board's view, the language included under both alternatives—in the auditor's report and on Form AP—clearly states the auditor's responsibility regarding the work of other participants in the audit and should not cause financial statement users to misinterpret or be confused about the degree of responsibility being assumed by the accounting firm signing the auditor's report.

and other financial statement users have been able to obtain information about a limited subset of other firms from PCAOB Form 2.[17]

There are no current requirements under which information would be provided publicly about other participants in the audit and, to the Board's knowledge, firms generally do not make this information public.

B. The Impact of Disclosure

The disclosure requirements under consideration would impact certain participants in the audit, financial statement users, and companies to the extent that this information is currently not publicly available. As discussed below, not all of these market participants would be affected in the same ways or to the same degree.

1. The Benefits of Disclosure

The disclosure requirements under consideration, whether in the auditor's report or on Form AP, aim to provide investors and other financial statement users with information that could add to the information available when evaluating the quality of individual audits. Among other things, the disclosures would allow investors to research whether engagement partners have been associated with adverse audit outcomes that could be attributed to deficiencies in their audit work or have been sanctioned by the PCAOB or SEC, and to understand how much of the audit was performed by the firm issuing the report and how much was performed by other firms, including those in jurisdictions where the PCAOB has been unable to conduct inspections. Moreover, as the disclosed information accumulates and is aggregated and analyzed in conjunction with other publicly available information, investors and financial intermediaries (for example, research analysts and credit rating agencies) would have a basis to evaluate additional data points, together with the information disclosed in the auditor's report or on Form AP, that may give them insight into individual audits. While this information may not be useful in every instance or meaningful to every investor, as discussed in more detail below, academic research suggests that, overall, financial markets would respond to it.[18]

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[17] PCAOB Form 2 requires independent public accounting firms that audited no issuers during the applicable reporting period to provide information on each issuer for which they "play[ed] a substantial role in the preparation or furnishing of an audit report," as defined by PCAOB Rule 1001 (p)(ii).

[18] *See, e.g.*, Knechel et al., *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*; Aobdia et al., *Capital Market*

Disclosures regarding the engagement partner and the other accounting firms that participated in the audit would allow investors and other financial statement users to supplement the accounting firm's name with more granular information when forming an opinion about the audit. The disclosed information may provide a more precise signal of audit quality in accounting firms that conduct a large number of public company audits. This information should be particularly valuable to investors where there is a greater degree of information asymmetry, as may be the case for smaller and less seasoned public companies. The new disclosures should also increase accountability for auditors who are not operating at an appropriate level of accountability, because they would now be publicly associated with the audit. However, the effect of the disclosures on accountability is not expected to have a uniform effect on all auditors.

a. Transparency

The PCAOB uses various data, including information about engagement partners and other accounting firms, to identify audit engagements for its risk-based inspections program. While some commenters argued that the information would not be useful or could be confusing, others stated that, over time, financial statement users would be able to combine the disclosed information with other financial information, including whether any previous adverse audit outcomes could be attributed to deficient audit work, which would allow them to better assess the quality of individual audits. For example, investors and other financial statement users would be able to observe whether financial statements audited by the engagement partner have been restated or whether the engagement partner has been sanctioned by the PCAOB or SEC, and investors and other financial statement users could also research other publicly available information. Commenters indicated that this information may be useful for investment decisions and decisions about whether to ratify the appointment of an accounting firm.

i. Disclosure Regarding the Engagement Partner

Other countries have adopted or may soon adopt requirements to disclose the name of the engagement partner.[19] Experiences from the countries with similar disclosure requirements are important in assessing possible consequences, intended or not, of any changes in this area. Academic research studying those jurisdictions documents how investors and other financial statement users may use the information

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Consequences of Audit Partner Quality; and Dee et al., *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings*.

[19] *See infra* footnotes 47 and 48.

to form an opinion about audit quality, as well as financial reporting quality. In general, economic theory argues that these disclosures should be useful to investors and other financial statement users, and studies using data from the jurisdictions where the disclosures are available appear to support the theory. However, in considering the implications of these studies for the audits under the Board's jurisdiction, the Board has been mindful, as some commenters suggested, of the specific characteristics of the U.S.-issuer and broker-dealer audit market, which may make it difficult to generalize observations made in other markets. For example, results from non-U.S. studies may depend on different baseline conditions (*e.g.*, market efficiency, affected parties, policy choices, legal environment, or regulatory oversight) than those prevailing in the United States.

Several studies have examined whether engagement partner disclosure requirements affect the prices of securities, leading to more efficient markets. Knechel et al. found "considerable evidence that similar audit reporting failures persist for individual partners over time" and that, in Sweden, where engagement partners' names are disclosed, "the market recognizes and prices differences in audit reporting style among engagement partners" of public companies.[20]

A similar study conducted by Aobdia et al. used data from Taiwan and also found that both debt and equity markets react to the performance characteristics of engagement partners as measured by abnormal accruals.[21] Although estimates of abnormal accruals are an imperfect proxy for audit quality, the authors continue to find evidence that engagement partner histories matter to capital markets when they use regulatory sanctions history as an alternate measure of engagement partner performance. The results of two other studies also conducted using data from foreign jurisdictions are consistent with these results.[22]

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[20] *See* Knechel et al., *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*.

[21] *See* Aobdia et al., *Capital Market Consequences of Audit Partner Quality*.

[22] *See* Wuchun Chi, Linda A. Myers, Thomas C. Omer, and Hong Xie, *The Effects of Audit Partner Pre-Client and Client-Specific Experience on Audit Quality and on Perceptions of Audit Quality* (January 2015) (working paper, on file with Social Science Research Network) (auditor experience is an important factor in determining audit quality and the perceived level of audit quality as measured by the cost of debt funding); *see also* Ferdinand A. Gul, Donghui Wu, and Zhifeng Yang, *Do Individual Auditors Affect Audit Quality? Evidence from Archival Data*, 88 The Accounting Review 1993 *passim* (2013) (effects of individual auditors on audit quality both economically

The limited research on engagement partner identification in the United States provides some support that the name of the engagement partner may be used as a signal of audit quality. Using data collected from SEC comment letters, Laurion et al. are able to identify engagement partners who are copied on correspondence between issuers and the SEC's Division of Corporation Finance. The authors find that newly rotated engagement partners are responsible for substantial increases in the number of material restatements of previously issued financial statements and write-downs of impaired assets.[23] While the authors do not explicitly analyze potential benefits related to engagement partner disclosure, they argue that engagement partner disclosure would provide useful information to investors because it would allow them to determine who was ultimately responsible for the audit of the financial statements that were misstated.

While empirical evidence suggests that disclosure of the name of the engagement partner could be beneficial, one experimental study pointed out by commenters raises the potential for unintended negative consequences. Lambert et al. used an experimental framework to examine how investors react to disclosure of the engagement partner.[24] They found that prospective investors were less likely to invest in a company that has been linked via the disclosure of the name of the engagement partner to another company that had to restate its financial statements, although the findings were only statistically significant for less-experienced investors. The authors conclude that disclosing the name of the engagement partner may align partner

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and statistically significant; effects pronounced in both large and small accounting firms). The authors of these papers use multiple proxies for audit quality, including "audit reporting aggressiveness" (*i.e.*, individual auditors' willingness to rely on management's disclosures and representations), clients' abnormal accruals and noncore earnings, the presence of a small profit, and bank loan pricing.

[23] *See* Henry Laurion, Alastair Lawrence, and James Ryans, *U.S. Audit Partner Rotations* (April 10, 2015) (working paper, on file with Social Science Research Network). The authors note that such increases in restatements and write-downs of impaired assets "suggest that new partners may help address the complacence of the former audit partner by bringing a renewed sense of skepticism as well as additional insights and expertise." *Id.* at 5.

[24] *See* Tamara A. Lambert, Benjamin L. Luippold, and Chad M. Stefaniak, *Audit Partner Disclosure: An Experimental Exploration of Accounting Information Contagion* (October 14, 2014) (working paper, on file with Social Science Research Network).

incentives more closely with those of client management, which could have negative effects on independence.

While individual responses to the disclosed information would vary, it does not necessarily follow that linking an engagement partner's reputation to the results of an audit would align the incentives of engagement partners with those of management and impair auditor independence. Rather, as discussed below, being publicly associated with an audit may result in an incentive to improve audit quality, for instance by enhancing the engagement partner's incentive to exercise an appropriate level of professional skepticism.

In addition, empirical evidence suggests that investors may be rational in believing that engagement partners associated with a previous financial statement restatement have an increased risk of misstatement going forward. Using data from Taiwan, Chi et al. found that recent financial statement restatements disclosed by an engagement partner's client are associated with a higher likelihood of that engagement partner's other clients misstating in the current year.[25] Although this result is based on evidence from a non-U.S. jurisdiction, it suggests that the disclosures could provide investors with useful information about the reliability of other financial statements audited by individual engagement partners who have been associated with a recent financial statement restatement.

ii. Disclosure Regarding Other Participants in the Audit

Empirical evidence also suggests that the market values information about other participants in the audit. Dee et al. examined the effect on issuers' stock prices[26] when investors learn (from participating auditors' Form 2 filings) that these issuers' audits included the substantial use of other accounting firms that do not audit other issuers. Using event study methodology, the authors find that, when accounting firms disclosed in Form 2 the identity of issuer audits in which they substantially participated, the stock prices of these issuers were negatively affected. The authors also find that earnings surprises for these issuers are less informative to the stock market after these disclosures in Form 2 are made, meaning that investors use these issuers' accounting

[25] *See* Wuchun Chi, Ling Lei Lisic, Linda A. Myers, and Mikhail Pevzner, *Information in Financial Statement Misstatements at the Engagement Partner Level: A Case for Engagement Partner Name Disclosure?* (January 2015) (working paper, on file with Social Science Research Network).

[26] *See* Dee et al., *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings*.

information less when pricing their securities.[27] The authors concluded that the results of the study suggested "that PCAOB mandated disclosures by auditors of their significant participation in the audits of issuers provides new information, and investors behave as if they perceive such audits in which other participating auditors are involved negatively."[28]

To the extent that investors and other financial statement users are better able to assess the level of audit risk stemming from multi-location engagements, it should incent the accounting firm signing the auditor's report to use higher-quality, less risky firms as other audit participants. It may also encourage the accounting firm signing the auditor's report to enhance their supervision and risk management practices with respect to audit participants in jurisdictions perceived as posing increased audit risk. It should also provide other firms incentives to increase the quality of their audit work to help ensure that they can continue to receive referred audit work.

b. Accountability

Public disclosure of the name of the engagement partner and certain other accounting firms that participated in the audit may also create incentives for the engagement partner and other firms to take voluntary steps that could result in improved audit quality. As discussed above, the Board expects that external sources would develop a body of information about the histories of engagement partners and other firms. The public nature of this information, through which audit outcomes would be publicly associated with the engagement partners and other firms involved, should provide them with additional incentives to develop a reputation for consistently performing reliable audits. While this would not affect all engagement partners and all

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[27] Academic research suggests that the financial markets' reaction to earnings surprises depends, among other things, upon the extent to which the disclosed earnings are perceived to be reliable. Thus, if markets react less to earnings surprises after an event, it could suggest that the earnings are perceived to be less reliable after the event. Academic researchers often interpret this as an indication of a reduction in perceived audit quality by investors.

[28] The negative market reaction in this instance may, at least to some extent, reflect the fact that the other participants in the study were auditors that have no issuer clients themselves but play a substantial role (*i.e.*, participate at least 20%) in an audit of an issuer. The disclosures being considered would also apply to other auditors that take a smaller role in the audit and/or may have more experience in the application of PCAOB standards to audits of issuers. Market reaction to disclosures regarding these types of participants may differ.

other firms participating in audits to the same degree, as some already operate with a high sense of accountability, others may respond to the additional incentives to deliver high quality audits.

i. Disclosure Regarding the Engagement Partner

Many investors, as well as some other commenters, believe that scrutiny of the engagement partner may result in increased accountability, which could prompt voluntary changes in behavior. However, other commenters, primarily accounting firms, asserted that disclosure of engagement partners would not affect accountability. If engagement partner behavior were to change, such changes could include increased professional skepticism, which could, in turn, result in better supervision of the engagement team and lower reliance on management's assertions. The auditor may have greater willingness to challenge management's assertions in the auditor's consideration of the substance and quality of management's financial statement disclosures. In addition, public disclosure of the name of the engagement partner may make that person less willing to accept an inappropriate position taken by a previous engagement partner because of the potential effects on his or her personal reputation.[29] For example, an academic study found evidence that engagement partner disclosure could increase the effectiveness of engagement partner rotation in promoting audit quality.[30]

Academic research also analyzed whether engagement partner disclosures could have an effect on accountability.[31] For example, a recent study examined the

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[29] *See* Letter from Carl Levin, Chairman, Senate Permanent Subcommittee on Investigations, and Tom Coburn, Ranking Minority Member, Senate Committee on Homeland Security and Governmental Affairs, to the Office of the Secretary, PCAOB (February 3, 2014) ("Public accountability, in which specific audit partners are recognized for high quality audits, as well as audit failures, can be a powerful antidote to internal pressures.")

[30] As discussed previously, academic research documents an increased rate of financial statement restatements following the rotation of engagement partners. This result may become more salient if the identity of the engagement partner is publicly available because engagement partners will have additional incentives to scrutinize their colleagues' work more closely so as to mitigate the possibility that a restatement will arise from financial statements audited during their tenure. *See* Laurion, et. al., *U.S. Audit Partner Rotations*.

[31] *See, e.g.,* Joseph V. Carcello and Chan Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United*

impact of the European Union's audit engagement partner signature requirement on audits in the United Kingdom and found improvements in several proxies for audit quality,[32] as well as an increase in risk-adjusted audit fees. Although the authors did not find evidence that audit fees actually increased following the implementation of the signature requirement, their model indicates that audit fees increased on a risk-adjusted basis in the year following the implementation of the requirement.[33] It is worth highlighting that this study evaluated a policy alternative (a signature requirement) that may have a more pronounced effect than the disclosure requirements being considered, since just disclosing the partner's name in the auditor's report or in a form on the PCAOB's website may not affect accountability to the same extent as a signature. In addition, the authors note that there were several other audit and financial reporting requirements implemented in the United Kingdom contemporaneously with the signature requirement and, accordingly, it is not possible for the authors to rule out the possibility that these other requirements may have driven their results. Furthermore, the study was conducted during the recent financial crisis, which may also have affected the results.

Kingdom, 88 The Accounting Review 1511 *passim* (2013); Allen D. Blay, Matthew Notbohm, Caren Schelleman, and Adrian Valencia, *Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate*, 18 International Journal of Auditing 172 (2014); and Ronald R. King, Shawn M. Davis, and Natalia M. Mintchik, *Mandatory Disclosure of the Engagement Partner's Identity: Potential Benefits and Unintended Consequences*, 26 Accounting Horizons 533 *passim* (2012).

[32] Specifically, Carcello and Li found a significant decline in abnormal accruals, a decrease in the propensity to meet an earnings threshold, an increase in the incidence of qualified auditors' reports, and an increase in a measure of earnings informativeness. Some commenters criticized the use of one of these metrics, abnormal accruals, as a proxy for audit quality. While, as noted in Section B.1.a.i., abnormal accruals are an imperfect proxy for audit quality, the results were corroborated using alternate proxies.

[33] Based on the size and risk characteristics of publicly traded companies in the United Kingdom, the model Carcello and Li estimate suggested that audit fees should have decreased following the engagement partner signature requirement. However, audit fees remained relatively stable, whether due to contractual reasons or otherwise. Therefore, the results of their model indicate that audit fees increased on a risk-adjusted basis, even though the audit fees actually paid remained relatively stable.

This contrasts with another study suggesting that disclosure requirements could produce limited or no observable improvement in audit quality.[34] Blay et al. analyzed data from the Netherlands and were unable to document any statistically significant changes in audit quality as measured by estimates of earnings quality. The authors concluded that the lack of findings may be attributable to sufficiently high levels of accountability and audit quality in the Netherlands.

As previously noted, the baseline conditions in other jurisdictions may differ from those in the United States, which could affect the extent to which these findings can be generalized to the United States.

ii. Disclosure Regarding Other Participants in the Audit

While some commenters questioned the value of disclosures regarding other participants in the audit, others argued that the disclosure of the extent of the audit work performed by other participants in the audit could increase accountability for accounting firms that are named. Other commenters indicated that, as with disclosure of the name of the engagement partner, information sources would likely develop over time. This may increase scrutiny of the overall reputation of such firms. This increased reputational risk should incent other accounting firms participating in an audit to perform high-quality audits for all engagements. Further, if another accounting firm performs a substantial portion of the audit, then its reputation would be closely tied to the overall results of the audit. This may help align the interests of the other firms participating in the audit with investors and other financial statement users and thus enhance audit quality.

The disclosure requirement may also incent global network firms to increase accountability for all of the firms in their networks. The audit process for many multinational companies currently depends on the affiliated firms within a global network to audit company subsidiaries in their respective countries. This introduces vulnerabilities to the audit if quality varies across the network. To counter this risk, the global network firm may be incented to increase its efforts to maintain uniform quality control standards and accountability across the global network. The global network firm may also improve its monitoring of other audit participants to ensure audit quality as well. This increased accountability of the other accounting firms that participated in the audit to the accounting firm signing the auditor's report could improve audit quality.

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[34] *See* Blay et. al., *Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate*.

For principal auditors that are not part of a global network, disclosures regarding other firms participating in the audit would provide an additional incentive for the principal auditor to choose firms that have a good reputation for quality.

2. The Costs and Other Possible Consequences of Disclosure

Over the course of the rulemaking, the Board was mindful of concerns voiced by commenters about potential compliance and other costs associated with public disclosure. In particular, many commenters on the 2013 Release argued that naming the engagement partner and other audit participants in the auditor's report, as contemplated by the 2013 Release, may create both legal and practical issues under the federal securities laws and therefore increase the cost of performing audits compared to the costs in the current environment. Some commenters suggested that an increase in costs would be passed on to companies through higher audit fees. Some commenters urged the Board to proceed with the new transparency requirements, if it determined to do so, by mandating disclosure in an amended Form 2 or in a newly created PCAOB form. As discussed in Section IV of the release, some commenters suggested that disclosure on a form may not raise the same concerns about Section 11 liability or consent requirements as disclosure in the auditor's report.

As discussed more fully in Section VI of the release, there are trade-offs associated with each of these disclosure locations. For example, if the disclosures are made in the auditor's report, accounting firms may incur incremental costs to obtain consents and potential additional costs associated with any increase in liability. However, if disclosure in the auditor's report is not mandatory, any such costs would presumably only be incurred in situations where the auditor expects disclosure in the auditor's report to produce a net benefit. Lastly, a requirement to file Form AP on the PCAOB's website would increase the costs of compliance for accounting firms that would otherwise prefer to provide disclosure in the auditor's report. These may include, for example, accounting firms that are not concerned with potential securities law liability and sole proprietorships that already disclose the name of the engagement partner in the auditor's report. The Board is seeking input from commenters as it evaluates these trade-offs.

a. Direct Costs

Under both the 2013 reproposal and the Form AP approach, the direct costs for auditors would include the costs of compiling information about the engagement partner and other participants in the audit and calculating the percentage of audit work completed by other participants in the audit. In general, costs should be lower for audits not involving other participants because the only required disclosure would be the engagement partner's name.

Compliance with the 2013 reproposal would also entail the cost of adding these specific disclosures in the auditor's report. By comparison, compliance with the Form AP approach would entail initial costs of implementation—which could include creating systems to gather the required information from each engagement team—and ongoing costs associated with aggregating the information and filling out and filing Form AP.

A number of commenters observed that administrative effort would be required to compile data for, prepare, and review the required disclosures, both initially and on an ongoing basis. Accounting firms that commented on this issue asserted that the administrative efforts and related costs would not be significant.

b. Indirect Costs and Possible Unintended Consequences

In addition to the direct costs, there may be indirect costs and unintended consequences associated with the disclosures under consideration, some of which could be more significant than the direct compliance costs.

i. Differential Demand Based on Reputation

The disclosures aim to provide investors and other financial statement users with additional information they can use to evaluate audit quality at the engagement level, as opposed to the accounting firm level. This may result in some degree of differentiation in stature and reputation of individual auditors who serve as engagement partners and in other firms that participate in audits.

Currently, accounting firms are primarily differentiated based on proxies for reputation or experience.[35] Some commenters suggested that the new requirements could be detrimental to smaller and less well-known accounting firms, even when they perform audit work in accordance with PCAOB standards. Others raised concerns that public identification of the engagement partner could lead to a rating, or "star," system resulting in particular individuals and entities being in high demand, to the unfair disadvantage of other equally qualified engagement partners. It is also possible that engagement partners may be unfairly disadvantaged because of association with an adverse audit outcome, which could be particularly damaging to their professional development and future opportunities if it occurred at the outset of their career. Unwarranted attribution of an adverse audit outcome to an engagement partner could also adversely affect other public companies whose audits were led by the same

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[35] *See* DeAngelo, *Auditor Size and Audit Quality,* and Francis, *What Do We Know About Audit Quality?*.

engagement partner. While commenters did not raise similar concerns related to other accounting firms participating in audits, the implications of identification could be similar.

Differential demand based on reputation could be a cost of the disclosures under consideration to the extent the reputation (whether good or bad) was undeserved. It may be reasonable, however, to expect that financial markets would be discerning in considering information about the engagement partner and other firms participating in the audit. As one commenter stated, "investors are accustomed to weighing a variety of factors when assessing performance. . . . This approach can be seen in the careful analysis investors and proxy advisors do when they are asked to withhold support from directors standing for election. There is no reason to believe they will do otherwise with respect to auditors."[36] Academic research also suggests that financial markets do not treat all restatements and going concern opinions equally. Instead, financial markets respond to the facts and circumstances related to an individual restatement or going concern modification.[37] The results from this research suggest that financial markets may be similarly discerning when forming their opinion about an engagement partner or other participant in the audit.

ii. Overauditing and Audit Fees

Some commenters have suggested that increased incentives to avoid adverse outcomes may lead to instances of overauditing, in which the engagement team undertakes more procedures than it otherwise might have performed, which do not contribute to forming an opinion on the financial statements.[38] This would result in unnecessary costs and an inefficient utilization of resources, and might cause undue delays in financial reporting. While the possibility of overauditing cannot be eliminated, commenters did not provide any specific evidence that transparency would result in overauditing and there are counterincentives that mitigate that risk.

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[36] *See* Letter from Denise L. Nappier, State Treasurer, State of Connecticut, to the Office of the Secretary, PCAOB (March 17, 2014) at 3.

[37] Academic research documents differences in the market impact of restatements and going concern opinions based on the specific facts and circumstances of the events. *See, e.g.*, Susan Scholz, *The Changing Nature and Consequences of Public Company Financial Restatements 1997–2006*, *The Department of the Treasury* (April 2008); and Krishnagopal Menon and David D. Williams, *Investor Reaction to Going Concern Audit Reports*, 85 The Accounting Review 2075 *passim* (2010).

[38] *See* King et. al., *Mandatory Disclosure of the Engagement Partner's Identity: Potential Benefits and Unintended Consequences*.

It should also be noted that the disclosures under consideration are not performance standards and do not mandate the performance of additional audit procedures. It is possible, however, that some auditors may perform additional procedures as a result of the potential requirements (for example, because they were not previously complying with PCAOB standards or because they want to obtain a higher level of confidence in some areas). If and to the extent there are increased costs for auditors as a result of the application of the disclosures under consideration, however, such costs may be passed on—in whole, in part, or not at all—to companies and their investors in the form of higher audit fees.[39] Further, increased procedures may also require additional time from the company's management to deal with such procedures.

iii. Changes in Behavior of Engagement Partners

A recent study documents certain ways in which the disclosures could change the incentives of engagement partners resulting in changed behavior.[40] Under a purely theoretical model developed by Carcello and Santore that has not yet been empirically tested, potential reputation costs stemming from disclosure leads engagement partners to become more conservative and gather more evidence than the accounting firm finds to be optimal. Although the authors found that the disclosures lead to increased audit quality, their analysis indicated that engagement partner identification likely leads to decreases in the welfare[41] of engagement partners and accounting firms. The authors argued that changes in the welfare of engagement partners and accounting firms may not be optimal within their theoretical analysis.

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[39] The Board is aware of public reports that have analyzed historical and aggregate data on audit fees and which suggest that audit fees generally have remained stable in recent years, notwithstanding the fact that the Board and other auditing standard setters have issued new performance standards during that period. *See, e.g.*, Audit Analytics, *Audit Fees and Non-Audit Fees: A Twelve Year Trend* (September 2014). In its reproposal, the Board sought data that might provide information or insight into such costs. As noted previously, commenters did not provide data regarding the extent of such costs.

[40] *See* Joseph V. Carcello and Rudy Santore, *Engagement Partner Identification: A Theoretical Analysis*, Accounting Horizons (forthcoming 2015).

[41] The term "welfare" can be thought of as overall well-being. In economic theory, welfare typically refers to the prosperity and living standards of individuals or groups. Some of the typical factors that are accounted for in welfare functions (or utility functions) include: compensation, leisure, effort, reputation, et cetera.

The Carcello and Santore analysis is limited since, among others, they do not explicitly analyze the effects of increased auditor conservatism and increased audit quality on investor utility. Therefore, their description of the "society" is missing a key participant, the investors. This limitation notwithstanding, they do note that increased conservatism at large accounting firms may actually be socially optimal as it could limit damages to market participants stemming from aggressive financial reporting at large issuers.

iv. Disincentive to Perform Risky Audits

Some commenters have suggested that engagement partners and other accounting firms participating in audits may avoid complex and/or risky audits because of the potential negative consequences of an adverse audit outcome. It is also possible that accounting firms could increase audit fees or adjust their client acceptance and retention policies because of heightened concerns about liability, including the cost of insurance, or reputational risks. This could enhance auditors' performance of their gatekeeper function to the extent that it increases auditors' reluctance to take on clients at a high risk of fraudulent or otherwise materially misstated financial statements. But it would impose a cost if firms or partners become so risk averse that companies that do not pose such risk cannot obtain well-performed audits. This could effectively compel certain particularly risky companies to use engagement partners or accounting firms with substandard reputations or, in extreme circumstances, lead them to cease SEC reporting. If investors are better able to evaluate the quality of audit work performed by engagement partners and other accounting firms participating in the audit, companies that engage accounting firms with a reputation for substandard quality may experience an increased cost of capital.

v. Mismatch of Skills

Some commenters suggested that reputational concerns may lead audit committees not to select qualified engagement partners associated with prior restatements and to select a perceived "star" partner. It is, therefore, possible that, in some instances, high-demand auditors might be engaged when other auditors whose skills may be more relevant for a particular engagement are not selected. This could result in decreased audit quality. However, accounting firms have incentives to staff engagements appropriately, and star engagement partners would also be incented to avoid performing audits for which they are not qualified in order to maintain that status or to mitigate any skill mismatch and maintain or enhance their reputation by consulting with others within their firm as necessary to ensure audit quality.

The ability to identify audit quality at the engagement level could also facilitate the intentional selection of auditors with a reputation for substandard quality. Companies may do this for a variety of reasons, including the potential for lower audit fees or to identify auditors who are less likely to challenge management's assertions. The ability for investors and other financial statement users to identify a mismatch in auditor skill and company-specific audit needs should limit the extent to which companies can choose an auditor with a reputation for substandard quality.

vi. Possible Changes in Competitive Dynamics

Differentiation in stature and reputation of individual auditors who serve as engagement partners, and in other firms that participate in audits, could have a number of competitive effects. One commenter suggested that transparency could create a permanent structural bias against smaller, less-known firms and partners as audit committees may be reluctant to engage firms or select partners that are not well-established or well-known. As described in Section A, it appears that the disclosures under consideration could promote increased competition based on factors other than general firm reputation. In particular, if investors are better able to assess variations in audit quality, any resultant financial market effects should incent accounting firms to increase the extent to which they compete based on audit quality.

Moreover, the disclosures could result in changes to the market dynamics for the services of engagement partners and other firms participating in audits. The ability to differentiate among engagement partners and among other firms participating in audits could change external perceptions of particular partners and accounting firms, which may affect the demand for their services. This shift in demand could, in turn, affect auditor compensation and supply dynamics.

It should be noted, however, that a marked increase in the mobility of engagement partners and other accounting firms participating in audits seems unlikely due to high switching costs and contractual limitations. For example, partnership agreements, noncompete agreements, and compensation and retirement arrangements may affect partners' incentives and contractual ability to change firms. In addition, the costs to an issuer of replacing the global audit team and explaining the decision to change accounting firms to the market may affect companies' incentives to follow an engagement partner to a new firm. As a result, engagement partners may be reluctant to or contractually precluded from changing accounting firms, and those who elect to change firms may be unable to bring their clients with them. Additionally, the five-year partner rotation requirement would preclude an engagement partner from serving a company for more than five years, even if the engagement partner switched accounting firms.[42]

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[42] Rule 2-01(c)(6) of Regulation S-X, 17 CFR § 210.2-01(c)(6); *see also* Section 203 of the Sarbanes-Oxley Act.

C. Alternatives Considered

After considering these factors and public comments, the Board continues to consider whether disclosure of the name of the engagement partner and certain information about other participants in the audit is in the public interest. The Board also continues to consider the appropriate location of such disclosure.

In December 2013, the Board reproposed amendments to its standards that would require disclosure in the auditor's report of: (1) the name of the engagement partner; (2) the names, locations, and extent of participation of other independent public accounting firms that took part in the audit; and (3) the locations and extent of participation, on an aggregate basis by country, of certain nonaccounting firm participants in the audit. The Board continues to consider whether to adopt these requirements through disclosure in the auditor's report or on Form AP.[43] As described below, the Board has considered a number of alternative approaches to achieve the potential benefits of enhanced disclosure and in this supplemental request for comment, is considering another disclosure alternative.

1. Alternatives Considered Previously

Over the past several years, the Board has considered a number of alternative approaches to the issue of transparency. Initially, the Board considered whether an approach short of rulemaking would be a less costly means of achieving the desired end. The Board's usual vehicles for informal guidance—such as staff audit practice alerts, answers to frequently asked questions, or reports under PCAOB Rule 4010, *Board Public Reports*—did not seem suitable. U.S. accounting firms have not voluntarily disclosed information about engagement partners and other audit participants. Also, even if some auditors disclosed more information under a voluntary regime, practices among auditors likely would vary widely. That would defeat one of the Board's goals of achieving widespread and consistent disclosures about the auditors that are registered with the PCAOB. Thus, the Board did not pursue an informal or voluntary approach.

In the 2009 Release, the Board considered a requirement for the engagement partner to sign the auditor's report in his or her own name in addition to the name of the accounting firm. A number of commenters supported and continue to support the signature requirement. However, many other commenters opposed it, mainly because including the signature in the auditor's report, in their view, would appear to minimize

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[43] As discussed in Section V of the release, the Board is also reconsidering the appropriateness of the proposed disclosures regarding nonaccounting firm participants.

the role of the accounting firm in the audit and could increase the engagement partner's liability. Some commenters believed that this alternative would increase both transparency and the engagement partner's sense of accountability. Other commenters believed that engagement partners already have a strong sense of accountability and that signing their own name on the audit opinion would not affect that.

In the 2011 Release, in addition to the requirement to disclose the name of the engagement partner in the auditor's report, the Board proposed to add to Form 2[44] a requirement to disclose the name of the engagement partner for each audit required to be reported on the form. As originally proposed, disclosure on Form 2 would supplement more timely disclosures in the auditor's report by providing a convenient mechanism to retrieve information about all of a firm's engagement partners for all of its audits.[45]

There are, however, a number of disadvantages to a Form 2-only approach, as discussed in the 2013 Release. It would delay the disclosure of information useful to investors and other financial statement users from 3 to 15 months.[46] It also would make the information more difficult to find by investors interested only in the name of the engagement partner for a particular audit, rather than an aggregation of all of the firm's engagement partners for a given year, because they would have to search for it in the midst of unrelated information in Form 2.

Some commenters on both the 2011 Release and 2013 Release suggested that the names of the engagement partner and the other participants in the audit should be included, if they were to be disclosed at all, not in the auditor's report but on an existing or newly created PCAOB form only. This would make the information publicly available, while responding to concerns expressed by commenters related to liability. Some commenters on the 2013 Release also suggested that these disclosures would be more appropriately made in the company's audit committee report.

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[44] Form 2 provides basic information about the firm and the firm's issuer-related practice over the most recent 12-month period.

[45] The 2011 Release also proposed to require disclosure about other participants in the most recent period's audit.

[46] Form 2 must be filed no later than June 30 of each year—according to PCAOB Rule 2201, *Time for Filing of Annual Report*—and covers the preceding 12-month period from April 1 to March 31; *see* Form 2, General Instruction 4. Special reports must be filed no later than 30 days after the triggering event. *See* PCAOB Rule 2203, *Special Reports*.

In considering commenters' views in the development of this supplemental request for comment, the Board also considered providing auditors the option of making disclosure either in the auditor's report or on a newly created PCAOB form. This alternative would have had the advantage of allowing auditors to decide how to comply with the disclosure requirements based on their particular circumstances, may have imposed lower compliance costs in some instances compared to mandatory form filing or mandatory auditor's report disclosure, and may have resulted in more disclosures in the auditor's report than a mandatory form because some auditors may have preferred to avoid the cost of filing the form by disclosing the information in the auditor's report. However, such an approach would have permitted disclosures in multiple locations, which could have caused confusion and increased search costs compared to either auditor's report disclosure or disclosure on a mandatory form.

2. Disclosure in the Auditor's Report

Under the alternative proposed in the 2013 Release, auditors would be required to disclose the name of the engagement partner and certain other participants in the audit in the auditor's report. This approach has certain benefits to market participants related to timing and visibility of the disclosures. For example, mandated disclosure in the auditor's report would reduce search costs for market participants in some instances. The required information would be disclosed in the primary vehicle by which the auditor communicates with investors and where other information about the audit is already found, and would be available immediately upon filing with the SEC of a document containing the auditor's report. However, market participants may incur costs to aggregate the information disclosed in separate auditors' reports.

It is possible that, compared to disclosure on Form AP, disclosing the information in the auditor's report may have an incrementally larger effect on the sense of accountability of identified participants in the audit, because, for example, the engagement partner would be involved in the preparation of the auditor's report, but may not be involved in the preparation of the form. As discussed above, increased auditor accountability could have both positive and negative effects on the audit.

Mandating disclosure of the name of the engagement partner in the auditor's report would also create consistency between PCAOB auditing standards and requirements of other global standard setters regarding engagement partner disclosure.[47] For example, 16 out of the 20 countries with the largest market

[47] In 2014, the International Auditing and Assurance Standards Board ("IAASB") adopted International Standards on Auditing ("ISA") 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, which generally requires disclosure of the name of the engagement partner in the auditor's report. Following this adoption,

capitalization, including seven European Union member states, already require disclosure of the name of the engagement partner in the auditor's report.[48] However, it should be noted that baseline conditions, including those regarding auditor liability, may differ among these jurisdictions.

As previously discussed, disclosure in the auditor's report could trigger the consent requirement of Section 7 and subject the identified parties to potential liability under Section 11 of the Securities Act. As a result, there could be additional indirect costs to engagement partners and other accounting firms participating in audits associated with defense of the litigation.

3. Disclosure on a New PCAOB Form

Under the new alternative being considered by the Board in this supplemental request for comment, auditors would be required to disclose the name of the engagement partner and certain other accounting firms that participated in the audit in a separate PCAOB form to be filed in most cases by the 30th day after the date the auditor's report is first included in a document filed with the SEC with a shorter deadline of 10 days for initial public offerings.

The approach described in the supplemental request for comment would allow auditors to decide whether to also provide disclosure in the auditor's report taking into account, for example, any costs associated with obtaining consents pursuant to the Securities Act and the potential for liability stemming from disclosure in the auditor's report. Although many auditors may prefer to avoid the potential legal issues associated with disclosure in the auditor's report, some auditors may choose, or be urged by audit clients or investors and other financial statement users, to also make the required disclosures in the auditor's report. Financial statement users could interpret an auditor's

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disclosure of the engagement partner's name in the auditor's report of a listed entity will become the norm in those jurisdictions that have adopted the ISAs as adopted by the IAASB. *See also* 2013 Release for further discussion of the requirements regarding engagement partner disclosure in other jurisdictions.

48 Out of the 20 countries with the largest market capitalization (based on data obtained from the World Bank, World Development Indicators), the four that currently do not require the disclosure of the name of the engagement partner are the United States, Canada, Republic of Korea, and Hong Kong. The 16 countries that currently require disclosure of the name of the engagement partner are Japan, United Kingdom, France, Germany, Australia, India, Brazil, China, Switzerland, Spain, Russian Federation, the Netherlands, South Africa, Sweden, Mexico, and Italy.

willingness to be personally associated with the audit in the auditor's report as a signal of audit quality or, more generally, as a means of differentiating among auditors.[49]

Requiring disclosure in a separate PCAOB form may decrease the chances that investors and financial statement users would seek out the information. While disclosure in the auditor's report would make information available on the date of SEC filing of the document containing the auditor's report, disclosure on Form AP could occur up to 30 days later and information would only be included in the auditor's report when the auditor also chose to disclose in the auditor's report. Regardless of where it is disclosed, investors should be able to consider the information in developing their investment strategies.[50]

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[49] Changes to the format of the auditor's report in the United Kingdom may have provided auditors with a mechanism to distinguish themselves from their peers. Some filings suggest that some auditors may be using the new format to showcase the rigor and quality of their audit work. *See* Sara Deans and Terence Fisher, *New UK Auditor's Reports: Findings from the FTSE 100 New Auditor's Reports*, *Citi Research* (September 3, 2014).

[50] There is an extensive body of academic literature demonstrating that financial markets are able to incorporate information into securities prices. Because securities prices can be viewed as public goods, investors are able to learn important information about a company by looking at the prices of its securities. *See*, *e.g.*, Eugene F. Fama, *Efficient Capital Markets: A Review of Theory and Empirical Work*, 25 The Journal of Finance 383 (1970); Sanford Grossman, *Further Results on the Informational Efficiency of Competitive Stock Markets*, 18 Journal of Economic Theory 81 (1978); John C. Coffee, Jr., *Market Failure and the Economic Case for a Mandatory Disclosure System*, 70 Virginia Law Review 717 (1984); and Verrecchia, *Essays on Disclosure*.

PCAOB
Public Company Accounting Oversight Board

Exhibit 2(a)(B)

Alphabetical List of Comments on the rules proposed in PCAOB Release Nos. 2009-005, 2011-007, 2013-009, and 2015-004.

Alphabetical List of Comments on the rules proposed in PCAOB Release No. 2009-005	
	American Accounting Association, Auditing Standards Committee of the Auditing Section
	BDO USA, LLP
	California Public Employees' Retirement System (CalPERS)
	California Society of Certified Public Accountants, Accounting Principles and Auditing Standards Committee
	Center for Audit Quality
	Cherry, Bekaert & Holland, L.L.P.
	Council of Institutional Investors
	Crowe Horwath LLP
	Deloitte & Touche LLP
	Ernst & Young LLP
	Frank Gorrell
	Audrey Gramling; Joseph Carcello; Todd DeZoort; and Dana Hermanson
	Grant Thornton LLP
	Hein & Associates LLP
	KPMG LLP
	McGladrey LLP
	Moore Stephens Lovelace, P.A.

Alphabetical List of Comments on the rules proposed in PCAOB Release No. 2009-005	
	New York State Society of Certified Public Accountants
	Piercy Bowler Taylor & Kern
	PricewaterhouseCoopers LLP
	The Institute of Chartered Accountants in England and Wales
	UHY LLP
	Stephen A. Zeff, Herbert S. Autrey Professor of Accounting, Rice University

Alphabetical List of Comments on the rules proposed in PCAOB Release No. 2011-007	
	American Accounting Association, Auditing Standards Committee of the Auditing Section
	AngloGold Ashanti Limited
	Chris Barnard, Actuary
	Battelle & Battelle LLP
	BDO USA, LLP
	BKD, LLP
	Black Economic Council; Latino Business Chamber of Greater LA; National Asian American Coalition
	California Society of Certified Public Accountants, Accounting Principles and Auditing Standards Committee
	Canadian Public Accountability Board
	Center for Audit Quality
	Certichron Inc
	CFA Institute
	Council of Institutional Investors
	Deloitte & Touche LLP
	Eli Lilly and Company
	Ernst & Young LLP
	Federation of European Accountants
	James L. Fuehrmeyer, Jr. MBA, CPA, Associate Teaching Professor,

Alphabetical List of Comments on the rules proposed in PCAOB Release No. 2011-007	
	University of Notre Dame
	Grant Thornton LLP
	Jack Henry
	Hermes Equity Ownership Services
	Edward B. Horahan III, The Law Office of Edward B. Horahan III, P.L.L.C.
	Illinois CPA Society
	Institute of Management Accountants
	KPMG LLP
	Tamara A. Lambert, Ph.D.; Benjamin L. Luippold, Ph.D.; Chad M. Stefaniak, CPA, Ph.D.
	Mayer Hoffman McCann P.C.
	McGladrey LLP
	Muddy Waters Research
	New York State Society of Certified Public Accountants
	Memorandum from the Office of the Chief Auditor regarding a June 4, 2013 meeting with representatives of Mayer Hoffman McCann, P.C. and CBIZ, Inc
	Piercy Bowler Taylor & Kern, Certified Public Accountants
	PricewaterhouseCoopers LLP
	Vu Quynhanh
	Sherman L. Rosenfield, CPA, P.A.
	C. Russell
	Adrienne Stankard
	Texas Society of Certified Public Accountants
	The Institute of Chartered Accountants in Australia
	The Institute of Chartered Accountants in England and Wales
	U.S. Chamber of Commerce, Center for Capital Markets Competitiveness
	United States Senate Committee on Homeland Security and Governmental Affairs
	Gilbert F. Viets

Alphabetical List of Comments on the rules proposed in PCAOB Release No. 2013-009	
	American Accounting Association, Auditing Standards Committee of the Auditing Section
	American Federation of Labor and Congress of Industrial Organizations
	Association of Chartered Certified Accountants
	Chris Barnard, Actuary
	Dennis R. Beresford, Executive in Residence, J. M. Tull School of Accounting, Terry College of Business, The University of Georgia
	BDO USA, LLP
	BKD, LLP
	Charles A. Bowsher
	G. Lawrence Buhl, CPA
	Ashley W. Burrowes PhD, CMA, FCA, Visiting Professor, Erskine Scholar in Accounting, University of Canterbury; John Karayan JD, PhD, Professor of Accounting, Woodbury University
	California Public Employees' Retirement System (CalPERS)
	California Society of Certified Public Accountants, Accounting Principles and Auditing Standards Committee
	Pw Carey
	William F. Casey, Jr., retired CPA
	Center for Audit Quality
	CFA Institute
	CohnReznick LLP
	Compagnie Nationale des Commissaires aux Comptes
	Council of Institutional Investors
	Crowe Horwath LLP
	Jim Cusenza
	Linda de Beer, Professor, Independent Director and Corporate Governance Advisor
	Deloitte & Touche LLP
	EisnerAmper LLP
	Ernst & Young LLP
	Charles T. Fagan, CPA, MBA, CGMA, CFE

Alphabetical List of Comments on the rules proposed in PCAOB Release No. 2013-009	
	Federal Housing Finance Agency
	Federation of European Accountants
	Florida Institute of Certified Public Accountants
	James L. Fuehrmeyer, Jr. MBA, CPA, Associate Teaching Professor, University of Notre Dame
	Fund Democracy, Inc.; Consumer Federation of America
	Grant Thornton LLP
	Farlen Halikman
	Illinois CPA Society
	Institut der Wirtschaftsprufer
	Institute of Management Accountants
	International Corporate Governance Network
	Investment Company Institute
	Philip Johnson
	Al Khan
	William R. Kinney, Jr., Charles and Elizabeth Prothro Regents Chair in Business, McCombs School of Business, The University of Texas at Austin; Zoe-Vonna Palmrose, Hanson Professor in Business Administration, Foster School of Business, The University of Washington at Seattle
	KPMG LLP
	McGladrey LLP
	National Asian American Coalition
	National Association of Corporate Directors
	National Association of State Boards of Accountancy
	New York State Society of Certified Public Accountants
	Charles H. Noski
	Thomas F. Palmeri, CPA
	Pennsylvania Institute of Certified Public Accountants
	PricewaterhouseCoopers LLP
	Carolyn J. Ridpath, Compliance Specialist

Alphabetical List of Comments on the rules proposed in PCAOB Release No. 2013-009	
	Sherman L. Rosenfield, CPA
	Nick O. Sagona. Jr.
	Sinclair Capital LLC
	Society of Corporate Secretaries and Governance Professionals
	State of Connecticut
	Texas Society of Certified Public Accountants
	The Institute of Chartered Accountants in England and Wales
	David Tweedie
	U.S. Chamber of Commerce, Center for Capital Markets Competitiveness
	U.S. Government Accountability Office
	United States Senate Committee on Homeland Security and Governmental Affairs
	Gilbert F. Viets
	Robert N. Waxman, CPA
	WeiserMazars LLP

Alphabetical List of Comments on the rules proposed in PCAOB Release No. 2015-004	
	American Accounting Association, Auditing Standards Committee of the Auditing Section
	American Federation of Labor and Congress of Industrial Organizations
	BDO USA, LLP
	Dennis R. Beresford, Executive in Residence, J. M. Tull School of Accounting, Terry College of Business, The University of Georgia
	Bersot Capital Management LLC
	G Lawrence Buhl
	California Public Employees’ Retirement System (CalPERS)
	California State Teachers' Retirement System
	Joseph V. Carcello, Department Head – Accounting & Information Management, Executive Director – Neel Corporate Governance Center, EY and Business Alumni Professor, Haslam College of Business, University of Tennessee

Alphabetical List of Comments on the rules proposed in PCAOB Release No. 2015-004	
	Pw Carey
	Center for Audit Quality
	CFA Institute
	Colorado PERA
	Council of Institutional Investors
	James D. Cox, Brainerd Currie Professor of Law, Duke University School of Law
	Crowe Horwath LLP
	Deloitte & Touche LLP
	Dixon Hughes Goodman LLP
	Ernst & Young LLP
	Florida Institute of Certified Public Accountants
	Grant Thornton LLP
	Hermes Equity Ownership Services Limited
	Edward B. Horahan III, The Law Office of Edward B. Horahan III, P.L.L.C.
	Illinois CPA Society
	Institut Der Wirtschaftsprufer
	Institute of Management Accountants
	Mural Josephson
	KPMG LLP
	Mandarin Capital Partners
	McGladrey LLP
	Maureen M. McNichols, Marriner S. Eccles Professor of Public and Private Management and Accounting, Stanford University Graduate School of Business
	Muddy Waters, LLC
	National Association of State Boards of Accountancy
	New York State Society of Certified Public Accountants
	Pennsylvania Institute of Certified Public Accountants
	Piercy Bowler Taylor & Kern
	PricewaterhouseCoopers LLP

Alphabetical List of Comments on the rules proposed in PCAOB Release No. 2015-004	
	John R. Roberts
	SanDisk Corporation
	Sinclair Capital LLC
	Texas Society of Certified Public Accountants
	The Investment Association
	U.S. Chamber of Commerce, Center for Capital Markets Competitiveness
	U.S. Government Accountability Office
	WeiserMazars LLP
	Worker Owner Council of the Northwest

September 9, 2009

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Via email to comments@pcaobus.org

RE: PCAOB Rulemaking Docket Matter No. 029: Concept Release on Requiring the Engagement Partner to Sign the Audit Report

Dear Board Members:

The Auditing Standards Committee of the Auditing Section of the American Accounting Association is pleased to provide comments on the *PCAOB Rulemaking Docket Matter No. 029: Concept Release on Requiring the Engagement Partner to Sign the Audit Report*. We appreciate the opportunity to provide input.

The views expressed in this letter are those of the members of the Auditing Standards Committee and do not reflect an official position of the American Accounting Association. In addition, the comments reflect the overall consensus view of the Committee, not necessarily the views of every individual member.

We hope that our attached comments and suggestions are helpful and will assist in developing revisions to the PCAOB's standard on partner signature. If the Board has any questions about our input, please feel free to contact our committee chair for additional follow-up.

Respectfully submitted,

Auditing Standards Committee
Auditing Section - American Accounting Association

Commenting Committee Members:
Chair, James L. Bierstaker, Villanova University, phone: (610) 519-6101, email: james.bierstaker@villanova.edu
Past Chair – Randal J. Elder, Syracuse University
Paul Caster, Fairfield University
Brad J. Reed, Southern Illinois University Edwardsville
Lawrence Abbott, University of Memphis
Susan Parker, Santa Clara University
Steven Firer, Monash University – South Africa

General Comments

The Committee commends the PCAOB ("the Board") for addressing the issue of including partner signatures on the audit report. The following section presents a number of specific comments or suggestions, organized along the lines of the questions posed by the Board in the concept release.

Here are comments to selected specific questions in the concept release:

1. *Would requiring the engagement partner to sign the audit report enhance audit quality and investor protection?*

Based on the existing research, it is unclear whether the signature of the engagement partner will improve audit quality. The requirement is largely based on the assumption of increased partner accountability, but this implies that existing partner accountability to the firm and SEC is insufficient. Further, it assumes that the benefits of increased personal responsibility by the engagement partner exceed any potential loss in accountability by the firm.

Nevertheless, existing research does suggest that accountability reduces auditors' information biases, and enhances consensus, effort, and perhaps the quality of audit documentation (Johnson and Kaplan 1991; Kennedy 1993; Brazel et al. 2004; DeZoort et al. 2006). Since it seems likely that the signature requirement would enhance partner perceptions regarding personal accountability, there is a variety of research in auditing contexts that suggests there are benefits that may result from requiring the engagement partner to sign the audit report.

2. *Would such a requirement improve the engagement partners' focus on his or her existing responsibilities? The Board is particularly interested in any empirical data or other research that commenters can provide.*

As stated above, there is no research that pertains directly to this issue. However, based on the existing research, including that cited above, it is clear that accountability does focus attention, and could result in elevated levels of audit quality. On the other hand, new standards that provide additional clarity on partners' responsibilities, or enhanced accountability structures, might be another, and perhaps more direct approach to achieving enhanced audit quality.

3. *Would disclosure of the engagement partner's name in the report serve the same purpose as a signature requirement, or is the act of signing itself important to promote accountability?*

It is likely that disclosure would provide transparency, but accountability to a lesser extent than a signature requirement. Another alternative would be a concurring partner signature in the proxy or 10-K. However, one could certainly draw an analogy between the SOX Section 302 requirement that the CEO and CFO certify the financial statements, and requiring the audit partner to sign the audit report. Lobo and Zhou (2006) document an increase in conservatism in financial reporting following the requirement by the SEC that financial statements be certified by firms' CEOs and CFOs. Lobo and Zhou (2006) find that firms engage in less income-increasing earnings management in the year of certification by their CEO/CFOs than in the immediately preceding year. They also find that firms incorporate losses more quickly than gains when they report income in the certification year than in the year preceding certification. This, at least on the face, provides empirical, archival support for the notion that - even in a high litigation securities market - signing requirements may increase accountability amongst signing parties. On the other hand, CEO's and CFO's may have more control over the financial reporting process than audit partners, who engage in a consultative process with many other members of the audit firm.

4. *Would increased transparency about the identity of the engagement partner be useful to investors, audit committee members, and others?*

It is likely that the identity of the engagement partner is already known to the audit committee. Knowledge of the identity of the engagement partner may be potentially helpful to investors, although we are not aware of research that directly addresses this issue. Research suggests that information about audit firm size and industry specialization is used by market participants (Eichenseher et al. 1989; Menon and Williams 1993; Teoh and Wong 1993;) so it is certainly plausible that knowledge of the identity of the audit partner could provide a meaningful signal regarding audit quality. Additionally, research indicates that there is a change in audit quality surrounding a change in the auditing firm (DeFond and Subramanyam 1998).

A study using Taiwan data (Chi, Omer, Myers and Xie 2008) provides some evidence that characteristics of the audit partner can be used to deduce audit quality. This paper uses audit partner 'pre-client' experience (i.e. the number of years in which the audit partner signed the audit opinions of other clients before becoming a signing partner for the current client) and 'client-specific' experience (i.e. the number of years in which (s)he has served as a signing partner for the current client). These authors find a modest effect of pre-client experience on reducing extreme negative discretionary accruals. These authors also find that audit partner pre-client experience is negatively related to bank loan pricing – suggesting that some financial statement users find such information about the individual partner useful, although much additional research is needed on this issue. A starting point may be sole practitioners or smaller audit firms who in essence "sign" their reports already.

5. *Would such information allow users of audit reports to better evaluate or predict the quality of a particular audit? Could increased transparency lead to inaccurate conclusions about audit quality under some circumstances? We are particularly interested in any empirical data or other research that commenters can provide.*

As noted above, there is some evidence to suggest that knowledge of the individual partner can be used to infer audit quality. However, because lead engagement partners are generally not involved with an extensive number of engagements, it is quite possible that incorrect inferences could be drawn about the quality of audits associated with an individual partner due to the small number of audits associated with individual partners, and the existence of other factors that impact audit and financial reporting quality.

6. *Are there potential unintended consequences of requiring the engagement partner to sign the audit report that the Board should be aware of?*

As previously noted, the requirement could actually have an adverse effect on audit quality if it diminishes firm accountability. Also, if the requirement increases individual partner liability, this could have an adverse effect on top talent remaining in the profession and could potentially discourage new entrants into the profession.

Engagement partners may also engage in defensive auditing that increases the costs of audits. In addition, certain partners may find it more appealing to 'shed' more aggressive clients and higher risk clients as a means of maintaining their 'audit quality profile'. This avoidance of risky clients is analogous to the under-investment problem when CEOs are evaluated solely on ROA; the CEO may forgo positive NPV projects because it brings down their overall ROA. Consequently, more senior partners may be unwilling to be the lead partner on a particular client, when, in fact, it is precisely that type of client who needs better audit quality.

7. *The EU's Eighth Directive requires a natural person to sign the audit report, but provides that "[i]n exceptional circumstances, Member States may provide that this signature does not need to be disclosed to the public if such disclosure could lead to an imminent, significant threat to the security of the person." If the Board adopts an engagement partner signature requirement, is a similar exception necessary? If so, under what circumstances should it be available?*

Although it seems likely that situations of imminent threats are rare, we favor taking measures to protect the personal security of the audit partner when there is credible evidence of potential harm from disclosure of the partner's identity. It is also possible that investors may want to contact partners or interact with them in ways that are not productive or appropriate. It is also worth noting that the legal environment in the EU is quite different from that of the United States.

8. *What effect, if any, would a signature requirement have on an engagement partner's potential liability in private litigation? Would it lead to an unwarranted increase in private liability? Would it affect an engagement partner's potential liability under provisions of the federal securities laws other than Section 10(b) of the Securities Exchange Act, such as Section 11 of the Securities Act of 1933? Would it affect an engagement partner's potential liability under state law?*

We are not experts in this area. However, it seems likely that partners could be named in civil litigation, potentially triggering other, potentially unintended, negative consequences including privacy and security issues.

9. & 10. *Are there steps the Board could or should take to mitigate the likelihood of increasin*g *the audit partner's potential liability in private litigation*? (Question 10 not included).

Again, we are not experts on this. However, the committee is supportive of a safe harbor type provision to help limit liability and other potentially unintended consequences for the partner.

11. *Would other audit standards need to be modified?*

Not that we are aware of.

12. *Should the Board only require the engagement partner's signature as it relates to the current year audit? If so, how should the Board do so? For example, should firms be permitted to add an explanatory paragraph in the report that states that the engagement partner's signature relates only to the current year?*

This question speaks to the practical problems that could result from a partner signature requirement. If a partner signature is required, it is one additional factor that suggests that the partner signature should be included in the proxy statement. We would not favor an explanatory paragraph that the engagement partner's signature relates only to the current year as it would unnecessarily complicate the audit report.

13. *If a signature requirement is adopted, should a principal auditor that makes reference to another auditor also be required to make reference to the other engagement partner? Would an engagement partner be less willing to assume responsibility for work performed by another audit firm under AU sec. 543?*

Although the committee was not unanimous on this issue, the majority believed that the other auditor engagement partner should be referred to. However, as a result of a partner signature requirement, the majority of the committee also believes it is likely that audit firms will be more likely to refer to other auditors. We note that under existing standards references to other auditors do not even contain the name of the other audit firm, which we believe should be included as part of the reference to other auditors.

14. *Should partners sign reviews of interim financial information?*

The committee believes this is unnecessary, and the signature requirement should only apply to audits.

15. *Would other changes to the audit report be necessary?*

There are some situations that could require other changes to the audit report. As noted in Q12, requiring the engagement partner to sign the audit report could be problematic when multiple years are covered with different audit engagement partners. In these circumstances, the audit report may require modifications. It is also worth noting that restatements may also create complications regarding partner signature requirements.

16. *If the Board adopts a signature requirement, should it specify a form of the engagement partner's signature? For example, should the engagement partner sign on behalf of the firm and then "by" the engagement partner?*

If a signature requirement is adopted, having the engagement partner sign the audit report should not in any way change the existing firm signature requirement.

References

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Chi, W., H. Huang, T. Omer and H. Xie. Mandatory Audit-Partner Rotation, Audit Quality and Market Perception: Evidence from Taiwan. Working paper, University of Kentucky.

DeFond, M. L. and Subramanyam, K. R. 1998. Auditor Changes and Discretionary Accruals. *Journal of Accounting and Economics* 25 (1): 35-67.

DeZoort, T., P. Harrison, and M. Taylor. 2006. Accountability and auditors' materiality judgments: The effects of differential pressure strength on conservatism, variability, and effort. Accounting*, Organizations and Society* 31 (4/5): 373-390.

Eichenseher, J. W., Hagigi, M. and Shields, D. 1989. Market Reaction to Auditor Changes by OTC Companies. *Auditing: A Journal of Practice and Theory* 9 (1): 29-40.

Johnson, V. E. and S. E. Kaplan. 1991. Experimental evidence on the effects of accountability on auditor judgments. *Auditing: A Journal of Practice & Theory* 10: 96-107.

Kennedy, J. 1993. Debiasing audit judgment with accountability: A framework and experimental results. *Journal of Accounting Research* 31: 231-245.

Lobo, G. and J. Zhou. 2007. Did Conservatism in Financial Reporting Increase after the Sarbanes-Oxley Act? Initial Evidence. *Accounting Horizons* 20 (1): 57-73.

Menon, K. and Williams, D. 1994. The Insurance Hypothesis and Market Prices. *The Accounting Review* 69 (2): 327-342.

Teoh, S. and Wong, T. 1993. Perceived Auditor Quality and the Earnings Response Coefficient. *The Accounting Review* 68 (2): 346-366.

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September 11, 2009

Via e-mail: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Request for Public Comment: *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* - PCAOB Rulemaking Docket Matter No. 029

Dear Board Members and Staff:

BDO Seidman, LLP appreciates the opportunity to provide comments on the *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* ("Concept Release") and we hope that our comments and recommendations provide helpful insights as you deliberate the matters set out therein.

We share the PCAOB's objective of enhancing audit quality through continuous consideration of appropriate means of achieving that goal. However, while we understand that some parties believe that requiring the engagement partner signature on an audit report would improve audit quality through enhanced accountability and transparency, we do not agree with that view. We are also concerned that this recommendation may have adverse unintended consequences.

It appears that much of the support for requiring the engagement partner's signature is driven by analogies to the Eighth Company Law Directive of the European Union and the certification requirement of Section 302 of the Sarbanes-Oxley Act. However, we believe that these analogies are not appropriate for the following reasons:

Eighth Company Law Directive

We recognize that the European Union, through the Eighth Company Law Directive, requires member states to adopt a requirement for the engagement partner to sign the audit report. However, the liability regime in Europe (including liability caps in some countries) differs so significantly from that in the U.S. that any consideration of new PCAOB requirements that might trigger liability should not be made without recognition of those differences. In that regard, it should be noted that while the Concept Release refers to a 2005 paper of The Institute of Chartered Accountants in England and Wales entitled

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Shareholder Involvement - Identifying the Audit Partner as supportive of the audit partner signature, that paper recommended a limitation of liability provision in the engagement letter, which would provide that claims could only be brought against the auditing firm, rather than the identified engagement partner. Such limitation is not permitted by the SEC.

Section 302 Certification

We do not believe that this analogy is valid. The purpose of the officer's signature in a filing is to clarify management's long-standing responsibility for the information included therein, although such responsibility was written broadly, without significant guidance. In that regard, Section 302 was adopted because some management was attempting to disavow responsibility for the financial statements. In contrast, the engagement partner's responsibilities for the performance of the audit are set out clearly and extensively in professional standards. The effectiveness with which these professional standards have been implemented is routinely monitored as part of a firm's system of quality control, in addition to periodic inspections by professional and regulatory bodies. There is no similar monitoring by regulators of management's exercise of its responsibilities.

We have organized our comments into the following broad categories that address the concepts included within most of the specific questions posed in the Concept Release:

- Accountability
- Transparency
- Potential Liability of the Engagement Partner in Private Litigation

Accountability

The Concept Release indicates that an engagement partner signature may lead to improved audit quality because it increases the engagement partner's sense of personal accountability for the work performed and the opinion expressed, which could, in turn, result in greater exercise of care in performing the audit. However, there does not appear to be any empirical or anecdotal evidence to support that contention.

In our view, requiring an engagement partner to sign the audit report would not have any meaningful impact on engagement partner accountability (or on any concomitant improvement in audit quality or investor protection). Auditors are already held accountable to multiple parties, including investors, audit committees and partners within their own firms. In that regard, audit committees have primary responsibility for the appointment, compensation and oversight of a public company's audit firm. The engagement partner's

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frequent meetings with the audit committee on substantive audit issues certainly highlight this line of authority.

While the engagement partner is a key driver of the audit process and audit quality, audits are not performed by one individual, but rather by a coordinated team of professionals, each of whom is responsible for his or her own actions and is subject to sanctions mentioned below. In many audits of public companies, due to their complexity and size, the engagement partner often relies on numerous specialists, consulting partners, and other partners and managers with unique expertise. The Concept Release recognizes this scenario by describing a public company audit as typically involving “a substantial amount of work by highly skilled practitioners exercising significant professional judgment.” While this description of a coordinated team of professionals is accurate, it omits a crucial aspect of the audit -- a firm’s system of quality control.

As set out in QC Section 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, the firm’s system of quality control encompasses (1) Independence, Integrity and Objectivity, (2) Personnel Management, (3) Acceptance and Continuance of Engagements, (4) Engagement Performance, and (5) Monitoring, all of which play a part in the performance of high quality audits. Although the engagement partner has a key role in the conduct of the audit within the firm’s system of quality control, that system is critical to the effectiveness with which an engagement partner is able to fulfill that responsibility. The significance of the firm’s system of quality control to audit quality emphasizes the importance of holding the firm accountable for the audit, and the signature requirement should reflect this context. In contrast, directing the spotlight only on the engagement partner may have the unintended consequence of diminishing the rest of the engagement team’s sense of responsibility.

Engagement partners are held accountable through regulatory inspections, in addition to the internal monitoring processes conducted as part of the firm’s system of quality control. As a result, engagement partners are keenly aware of their responsibilities and accountability. For example, the PCAOB performs inspections to evaluate the sufficiency of a firm’s quality control system and inspects individual engagements to assist in that evaluation. Any adverse inspection findings are usually a significant input into the firm’s partner evaluation process. Further, engagement partners are also subject to enforcement actions by the PCAOB and SEC. Determinations of improper professional conduct can lead to various penalties, including barring an individual from practicing before those bodies. Enforcement actions are available to the public and the possibility of being subjected to one acts as a strong motivation for the engagement partner to ensure that the audit is performed with the highest level of professionalism.

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The engagement partner is also subject to civil litigation, as further described below.

Finally, by putting the firm at risk by signing the firm's name on the audit report, the partner is also placing at risk his or her capital in the firm and retirement benefits, both of which may be highly significant assets of the partner.

Transparency

The Concept Release suggests that by providing financial statement users, audit committees, and others with the name of the engagement partner, this might help them evaluate the extent of an engagement partner's experience and, to a degree, his or her track record and, as a result, provide some assessment of audit quality. However, transparency is already provided to financial statement users through a variety of mechanisms, specifically:

- Audit committees already have sufficient transparency as to the qualifications of the engagement partner through their many interactions with the partner during the year and knowledge otherwise gained through discussions with company management.

- Regulators also have ready access to the names of engagement partners. Furthermore, they are able to assess the capabilities of partners in connection with various forms of inspection.

- While investors generally would not know the name of an engagement partner, we do not understand how knowledge of the name would provide any useful information without understanding the specific capabilities of the partner. In that regard, it is important to recognize the corporate governance process operating under the various federal and regulatory regimes. Under those regimes, investors are represented by the Board of Directors and, in turn, by the audit committee. As mentioned above, the audit committee is responsible for assessing the performance of the audit firm as well as the engagement partner. Accordingly, we believe it is appropriate for investors to recognize this audit committee duty without feeling the need to duplicate it (albeit even partially). If investors are dissatisfied with the performance of the audit committee members, they can reflect this view by voting to replace them on the Board of Directors. It has also been suggested that investors would be able to contact the engagement partner directly if the report were signed by the partner. However, confidentiality constraints and liability concerns would likely restrict such communications.

Moreover, the line of reasoning that the engagement partner signature provides increased transparency discounts the significant impact the firm's system of quality control has on an audit. Rather than providing transparency, providing the engagement partner's name may actually decrease transparency because some parties may incorrectly assume that the engagement partner is the sole source of audit quality.

Potential Liability of the Engagement Partner in Private Litigation

The Concept Release recognizes concerns that the signature requirement may have a negative effect with respect to the engagement partner's potential liability under certain aspects of private litigation. While there may well be increased liability in certain types of litigation, we also understand that in other cases, the attendant liability of the partner lacks clarity. Therefore, we suggest that the PCAOB perform a thorough analysis of the potential legal consequences of a signature requirement. In any event, we believe that other litigation-related aspects of the signature requirement need to be addressed, as discussed below.

While engagement partners are sometimes named individually in private lawsuits, requiring an engagement partner to sign his or her name on the audit report will undoubtedly increase the number of times that an engagement partner will be the subject of private litigation. We believe that the plaintiffs' bar will focus unnecessarily on the engagement partner in adding parties to private lawsuits, resulting in firms facing increased costs. If engagement partners begin to be named routinely in private litigation as a result of signing their names on audit reports, firms will likely be required to retain separate counsel for the engagement partner and the firm. Firms also may be required to settle even meritless private lawsuits at an additional cost due to the engagement partner being added as a defendant. Moreover, in the likely event that the signature requirement increases the frequency whereby engagement partners are named in private lawsuits, this also may have a negative impact on the supply of high quality audit partners. Unnecessarily subjecting engagement partners to litigation as an individual defendant will likely cause a chilling effect on the profession, when auditors decide that the stress from being individually named in a lawsuit (even where the claims are unjustified) is not worth the benefits of becoming or acting in the capacity of the engagement partner, particularly on high risk engagements. This could also serve as a disincentive for college graduates to enter the public accounting profession. As a result, investors would lose the benefit of enhanced audit quality that this proposed signature requirement seeks to achieve.

If a signature requirement for the engagement partner is ultimately adopted, we strongly recommend that the PCAOB work with the SEC to ensure that it is accompanied with a safe harbor provision. This would be consistent with the statement in the Concept Release

BDO Seidman, LLP
Accountants and Consultants

that the signature requirement is not intended to increase the liability of the engagement partner.

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We appreciate your consideration of our comments, and would be pleased to discuss these with you at your convenience. Please direct any questions to Wayne Kolins, National Director of Assurance at 212-885-8595 (wkolins@bdo.com) or Susan Lister, National Director of Audit Policy at 212-885-8375 (slister@bdo.com).

Very truly yours,

/s/ BDO Seidman, LLP

BDO Seidman, LLP

CalPERS
Investment Office
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September 14, 2009

J. Gordon Seymour, Secretary and General Counsel
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street N.W.
Washington, D.C. 20006-2803

RE: **PCAOB Release No. 2009-005 Rulemaking Docket Matter No. 029**
Concept Release on Requiring the Engagement Partner to Sign the Audit Report

Dear Mr. Seymour:

I am writing you on behalf of the California Public Employees' Retirement System (CalPERS). CalPERS is the largest public pension fund, managing pension and health benefits for more than 1.6 million California public employees, retirees and their families. CalPERS manages approximately $198.5 billion in assets. Acting as fiduciaries to the members of the system, the CalPERS Board of Administration and its staff invest the pension funds of its members over the long term throughout the global capital markets.

CalPERS, which holds equity shares in more than 7,000 publicly-traded companies, views the integrity of financial reporting as an issue of vital importance to all investors and thanks the Public Company Accounting Oversight Board (Board) for the opportunity to provide public comment on rulemaking docket 029, which evaluates whether it should require the auditor with final responsibility for the auditor to sign the audit report.

As a long-term shareowner, CalPERS has a significant financial interest in seeking improvements in the integrity of financial reporting. We believe that accurate and reliable audited financial statements are critical to investors in making informed decisions and maintaining confidence in the marketplace. As reflective in the current financial market melt-down, public and investor confidence and stability are essential to the success and effective functioning of the capital markets. CalPERS' Global Principles of Accountable Corporate Governance stresses the importance of the integrity of Financial Reporting, link at "Adopt Corporate Governance Principles": http://www.calpers-governance.org/

CalPERS is supportive of the Board and its efforts to continuously improve the quality of the audit report. We agree and support proposed amendments to paragraph .08 of AU sec. 508, *Reports on Audited Financial Statements*, of the Board's interim standards and paragraph 85 of Auditing Standard No. 5, A*n Audit of Internal Control Over Financial Reporting That is*

Integrated with an Audit of Financial Statements, each of which describes the elements of the standard audit report.

We strongly believe that change is necessary to ensure the sustainability of a strong and vibrant auditing profession. CalPERS participated, testified and supported the US Treasury, Advisory Committee on the Auditing Profession's (ACAP) recommendations on increasing transparency requiring auditing firms to produce a public annual report incorporating information such as the firm's financial results on statutory audits, directly related services on a comparable basis and required disclosure of key performance indicators to foster greater audit quality.[1] CalPERS also stated that the ACAP should include the requirement as outlined in the European Union's Eighth Directive, Article 40 Transparency Report, that audit firms provide a description of their quality control system and a statement on the effectiveness of the quality control system.[2]

In this letter dated 13 June 2008 (attachment 1), CalPERS agreed and supported ACAP's recommendation that the PCAOB undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report. CalPERS is convinced that such signatures will foster greater accountability of the individuals signing the auditor's report, will enhance transparency, and may improve audit quality. We continue to support the certification requirement of the CEO and CFO of companies under Section 302 of Sarbanes-Oxley and directors' signatures on public company annual reports and liken this proposed recommendation to these requirements and to the inherent benefits this may produce.

With this in mind, investors like CalPERS view the Board's evaluation of whether it should require the auditor with final responsibility for the auditor to sign the audit report as critical, timely and as an additional basis of the integrity of financial reporting. We offer the following comments:

Reasons to Support a Signature Requirement:

Although CalPERS agrees that the skill of the audit firm as a whole is represented and stated in the opinion of the audit report, we believe requiring the engagement partner to sign the audit report will enhance audit quality by increasing the engagement partner's sense of accountability to financial statement users (providers of capital), lead to greater care in performing the audit and possibly provide better investor protection. CalPERS believes as outlined above that similar positive effects of personal accountability and sense of responsibility through certification can also improve audit quality with the engagement partner's signature. We concur that requiring the engagement partner's identity through a signature will motivate investors, companies' boards, and the audit firms to evaluate:

- the extent of an engagement partner's experience and the firms' policy on developing and enhancing engagement partner's expertise as well as oversight of engagement partners;
- the quality, expertise and better supervision of the audit team and the entire audit process;

[1] CalPERS written and oral testimony to the US Treasury Advisory Committee on the Auditing Profession. Panel on General Sustainability, 4 February 2008
[2] CalPERS written response to the US Treasury Advisory Committee on the Auditing Profession's Addendum to Section VI. Firm Structure and Finances, issued on May 30, 2008, dated 13 June 2008

- whether auditors' biases in information processing is reduced; and
- whether there is enhanced auditors' consensus and effort.

<u>Signature Requirement – Part of the Audit Is Performed by Another Auditor</u>:

Although, currently standard references to other auditors do not even contain the name of the other audit firm, it would seem more likely that once an engagement signature is necessary that audit firms will be more likely to refer to other auditors by firm name. We encourage and support this additional transparency.

CalPERS supports the Board's Concept Release and its efforts to improve the audit report. CalPERS believes these proposed changes will enhance transparency and accountability. Thank you for considering our comments. If you would like to discuss any of these points please do not hesitate to contact me at 916-795-4129.

Sincerely,

Mary Hartman Morris

Mary Hartman Morris
Investment Officer, CalPERS Corporate Governance

cc: Joseph A. Dear, Chief Investment Officer – CalPERS
Eric Baggesen, Senior Investment Officer – Global Equity, CalPERS
Anne Simpson, Senior Portfolio Manager – Corporate Governance, Global Equity, CalPERS

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June 13, 2008

Advisory Committee on the Auditing Profession
(ACAP)
Office of Financial Institutions Policy
Room 1418
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Chairman Levitt and Chairman Nicolaisen and Members of the ACAP:

I am writing on behalf of the California Public Employees' Retirement System (CalPERS). As the largest public pension system in the U.S., CalPERS manages approximately $247 billion in assets providing retirement and health benefits for nearly 1.5 million members.

This letter is CalPERS' response to the ACAP's Addendum to Section VI. Firm Structure and Finances, issued on May 30, 2008. CalPERS' comments on the addendum are as follows:

<u>Auditor's Report</u>

CalPERS supports the Committee's recommendation to improve the auditor's reporting model. As a long term investor, we believe the Auditor's Report should include identification of key risk areas, significant changes in risk exposures and provide specific information on how the audit opinion was reached, specifically in areas where significant assumptions and uncertainty in measurement require a higher level of professional judgment.[1] As outlined in CalPERS' written testimony on February 4, 2008, of critical importance to investors is that auditors accept

[1] CalPERS' written and oral testimony to the Securities and Exchange Commission, Advisory Committee on Improvement to Financial Reporting, Panel Regarding Materiality, Restatements and Professional Judgment, 13 March 2008.

responsibility for detecting fraud and improving the timely communication of these frauds to investors and shareowners.[2]

CalPERS believes the auditor's judgments about accounting principles and critical accounting policies and practices should be incorporated into the auditor's report. CalPERS agrees with the ACAP's conclusion that an improved auditor's report would likely lead to more relevant information for users of financial statements and would clarify the role of the auditor in the audit of financial reporting.

Engagement Partner Signature

CalPERS agrees with ACAP's consideration to recommend that the PCAOB revise the auditor's report standard to mandate the engagement partner's signature on the auditor's report to affirm the accountability of the auditor. CalPERS' testimony on February 4, 2008, also recommended public access to all firm-specific inspection reports even if potential defects in the audit firm's quality control systems are addressed. Making these inspection reports available to the public would provide an incentive for audit firms to continuously strive to improve audit quality.

Transparency

CalPERS supports ACAP's recommendation that the PCAOB require auditing firms to produce a public annual report incorporating information such as the firm's financial results on statutory audits, directly related services on a comparable basis and required disclosure of key performance indicators to foster greater audit quality. CalPERS believes the ACAP should also include the requirement as outlined in the European Union's Eight Directive, Article 40 Transparency Report, that audit firms provide a description of their quality control system and a statement on the effectiveness of the quality control system. Similarly, CalPERS applauds the recent action by the PCAOB which requires registered public accounting firms to submit an annual report requiring two types of additional reporting obligations. This includes basic information about the audit firm and the firm's issuer-related practice over the most recent 12-month period. The second requirement would include specific reportable events that must be

[2] CalPERS' written and oral testimony to the US Treasury, Advisory Committee on the Auditing Profession, Panel on General Sustainability, 4 February 2008.

disclosed within 30 days The PCAOB will make each firm's annual and special reports available to the public.[3]

CalPERS supports the ACAP's recommendation that required key performance indicators include average headcount, staff turnover, diversity, client satisfaction, audit and non-audit work, proposal win rate, revenue, profit, profit per partner, engagement team composition, the nature and extent of training programs and the nature and reason for client restatements. CalPERS also suggested in its February 4, 2008 testimony other key performance indicators such as average experience of staff, partner time allocated to each audit and percent of training dollars spent on staff as a percentage of the fees received for the audit. Audit firms should also consider strengthening peer reviews as well as sharing key performance indicators during these reviews to facilitate and strengthen audit quality throughout the industry.

ACAP is considering whether the PCAOB beginning in 2011 require auditing firms to file on a confidential basis, its audited financial statements prepared in accordance with either GAAP or IFRS, allowing the PCAOB to (1) determine, based on broad consultation, whether these audited financial statements be made public in consideration of their utility to audit committee members and investors in assessing audit quality, or alternative 2, which would require audit firms' audited financial statements be made available publicly. To ensure better transparency and provide audit committees and investors the ability to assess audit quality, CalPERS supports alternative 2, that all audited financial statements of audit firms be available on the PCAOB's website publicly.

When there is a change in the external auditor, the Audit Committee of companies should publicly disclose to shareowners the reasons for the change in greater detail then what is required by the SEC and within four days of the change. CalPERS also has the position that the independent external auditor should be ratified by shareowners annually.

<u>Litigation</u>

ACAP should not recommend that Congress provide federal courts with exclusive jurisdiction over some categories of claims, which presently may be brought in state courts against auditors, when such claims are related to audits of public company financial statements. CalPERS believes that federal jurisdiction

[3] PCAOB will submit to the SEC for approval adoption of rules for annual and special reporting requirements by audit firms, 10 June 2008.

over the public company auditing profession would weaken plaintiffs' rights and remedies.

Thank you for considering our comments in response to the Advisory Committee on the Auditing Profession's draft report and addendum. Please contact me at (916) 795-2731 if you have any questions or if I may be of further assistance.

Regards,

Dennis A. Johnson

Dennis Johnson, CFA
Senior Portfolio Manager
Corporate Governance

California Public Employees' Retirement System
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Via email: comments@pcaobus.org

September 9, 2009

Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 29

To the Members of the PCAOB

The Accounting Principles and Auditing Standards Committee (the AP&AS "Committee") of the California Society of Certified Public Accountants (CALCPA) is pleased to provide our comments to the Public Company Accounting Oversight Board ("PCAOB") on PCAOB Rulemaking Docket Matter No. 29 "Concept Release on Requiring the Engagement Partner to Sign the Audit Report."

The AP&AS Committee is the senior technical committee of CALCPA. CALCPA has approximately 32,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

General Comment

The Committee strongly opposes any requirement to require the engagement partner to sign the audit report or be identified as the engagement partner in public reports. The Board cites benefits of increased transparency and accountability, but the bases for those benefits uses term like "might," "may," and "could." That is, they are based on pure conjecture, and not facts. The Committee sees no benefit to any such requirement, and there may be some significant negatives.

1. Would requiring the engagement partner to sign the audit report enhance audit quality and investor protection?

No. There is already sufficient incentive under Sarbanes Oxley, PCAOB inspections and legal exposure to achieve audit quality.

2. Would such a requirement improve the engagement partner's focus on his or her existing responsibilities? The Board is particularly interested in any empirical data or other research that commenters can provide.

No. For the reasons stated in response to Question 1, the engagement partner is already very well focused on his or her responsibilities. The Committee is not aware that there is any empirical data on this issue, and notes that views supporting the signature requirement cite benefits that "may," "could," or "might" be achieved. As such, they are largely conjecture, and as such do not provide an adequate basis for a signature requirement

3. Would disclosure of the engagement partner's name in the report serve the same purpose as a signature requirement, or is the act of signing itself important to promote accountability?

The Committee sees no difference.

4. Would increased transparency about the identity of the engagement partner be useful to investors, audit committees, and others?

The name of the engagement partner in most cases will be no more than the name of an unknown person to investors and others outside the entity, and requiring the identity of the engagement partner therefore hardly increases transparency in any meaningful way. The name and the individual would already be known to the audit committee, so there would be no increased transparency.

5. Would such information allow users of audit reports to better evaluate or predict the quality of a particular audit? Could increased transparency lead to inaccurate conclusions about audit quality under some circumstances? We are particularly interested in any empirical data or other research that commenters can provide.

It is hard to see how the name of the engagement partner is of any use in predicting the quality of a particular audit. An audit typically involves a host of resources of the audit firm, and the quality of a particular audit is more dependent on the availability and skill of those resources than on the engagement partner. Further, the best assessment of the engagement partner is made by the audit committee and management, and this is unrelated to whether the name of the engagement partner is disclosed in the audit firm's report.

The Committee points out that if there are negative indications about an engagement partner's conduct of an audit on the audit of a public company, most firms will investigate it thoroughly, and often remove the partner from engagement responsibility, at least during the pendency of the investigation. Therefore, it is not likely that naming the engagement partner would be meaningful.

6. Are there potential unintended consequences of requiring the engagement partner to sign the audit report that the Board should be aware of?

The Committee is concerned that naming the engagement partner could lead to harassment or personal danger to the individual; aberrational behavior is an unfortunate fact of life, and it is sometimes difficult to protect individuals from it. As stated below, the Committee is also concerned about possible litigation exposures.

7. The EU's Eighth Directive requires a natural person to sign the audit report, but provides that "[i]n exceptional circumstances, Member States may provide that this signature does not need to be disclosed to the public if such disclosure could lead to an imminent, significant threat to the personal security of any person." If the Board adopts an engagement partner signature requirement, is a similar exception necessary? If so, under what circumstances should it be available?

The Committee is opposed to a requirement to name the engagement partner. It is difficult to imagine all circumstances where there could be a threat to the personal security of the engagement partner, particularly if events causing the threat arise after he or she has already been named.

8. What effect, if any, would a signature requirement have on an engagement partner's potential liability in private litigation? Would it lead to an unwarranted increase in private liability? Would it affect an engagement partner's potential liability under provisions of the federal securities laws other than Section 10(b) of the Securities Exchange Act, such as Section 11 of the Securities Act of 1933? Would it affect an engagement partner's potential liability under state law?

As the Release points out, naming the engagement partner or having the engagement partner sign the report may, in the views of some, open up the engagement partner to additional legal liability. Unfortunately, the legal determination may well depend on the outcome of litigation, which is expensive, and the results may be inconsistent from state to state and among federal circuits.

9. Are there steps the Board could or should take to mitigate the likelihood of increasing an engagement partner's potential liability in private litigation?

The Board should further explore ways to eliminate any increase in the engagement partner's potential liability in private litigation. The Committee is not certain that the Board could do this, and whether Federal law would successfully preclude action under state law.

10. Some commenters on the ACAP Report who expressed concern about liability suggested that a safe harbor provision accompany any signature requirement. While the Board has no authority to create a safe harbor from private liability, it could, for example, undertake to define the engagement partner's responsibilities more clearly in PCAOB standards. Would such a standard-setting project be appropriate?

The Committee does not believe a further definition of the engagement partner's responsibilities would be useful.

11. If the Board adopts an engagement partner signature requirement, would other PCAOB standards, outside of AU sec. 508 and Auditing Standard No. 5, need to be amended?

In view of the Committee's position on any such requirement, the Committee does not respond to this question.

12. Should the Board only require the engagement partner's signature as it relates to the current year's audit? If so, how should the Board do so? For example, should firms be permitted to add an explanatory paragraph in the report that states that the engagement partner's signature relates only to the current year?

The easiest way to do this is to name the engagement partner for the current year audit, and not require an actual signature. The engagement partner should not be required to attach his or her name to a prior period for which he was not engagement partner.

13. If a signature requirement is adopted, should a principal auditor that makes reference to another auditor also be required to make reference to the other engagement partner? Would an engagement partner at the principal auditor be less willing to assume responsibility for work performed by another firm under AU sec. 543?

The principal firm is taking overall responsibility, and the engagement partner should be able to satisfy himself or herself as to the other auditor. If the other auditor's report is included, the Committee questions how meaningful it would be to identify the engagement partner of the other firm.

14. Auditors are not required to issue a report on a review of interim financial information, though AU sec. 722, Interim Financial Information, imposes requirements on the form of such a report in the event one is issued. Should the engagement partner be required to sign a report on interim financial information if the firm issues one?

No. A review is not an audit, and an implication of the engagement partner signature is that a reader might misconstrue the scope of work done.

15. Would requiring the engagement partner to sign the audit report make other changes to the standard audit report necessary?

In view of the Committee's position on any such requirement, the Committee does not respond to this question.

16. If the Board adopts a signature requirement, should it specify a form of the engagement partner's signature? For example, should the engagement partner sign on behalf of the firm and then "by" the engagement partner?

The Committee believes that this form would at least clarify the roles of the firm and the engagement partner. It should be permitted. There may be other forms that might be used as well. However, as stated previously, the Committee objects to any requirement for the engagement partner to sign the report or be named as the engagement partner.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

Jo Ann Guattery, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants

CENTER FOR AUDIT QUALITY
Serving Investors, Public Company Auditors & the Markets

September 11, 2009

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: Request for Public Comment: *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* - PCAOB Rulemaking Docket Matter No. 029

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants. The CAQ appreciates the opportunity to respond to the Public Company Accounting Oversight Board (PCAOB or the Board) *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* (the Concept Release). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual or CAQ Governing Board member.

We have organized our observations and concerns regarding the topics raised in the Concept Release into the following sections:

• Overview
• Perspectives on Accountability
• Perspectives on Transparency
• Potential Unintended Consequences

OVERVIEW

We commend the PCAOB for soliciting input at an early stage in its standards-setting process. This Concept Release will enable the

PCAOB to consider valuable input while it deliberates whether proposed changes to the existing standards are appropriate. We encourage the PCAOB to continue to use Concept Releases or other means to obtain early input on relevant issues for use in considering the relative importance of and need for drafting new proposed standards or revisions to existing standards.

The Concept Release suggests that a signature requirement might enhance the engagement partner's sense of accountability to financial statement users for the work performed and the opinion expressed, which could, in turn, result in greater exercise of care in performing the audit. The Concept Release also suggests that a signature requirement might increase transparency regarding who is responsible for performing the audit and could provide useful information to investors and audit committees.

We believe that existing PCAOB standards and regulatory oversight sufficiently provide for accountability at all levels of a firm.[1] Within this letter we highlight how a firm's system of quality control and the engagement partner's interaction with, and role within, that system fosters accountability. We also provide perspective on other parties to which engagement partners are held accountable, such as other partners within a firm, audit committees, regulators and investors.

We also believe existing standards sufficiently provide for transparency regarding an engagement partner's identity. For example, the names of engagement partners are known or readily available to audit committees and regulators. Audit committees, in particular, are in a position to act upon this information in representation of investors given their governance authority and knowledge of the particular circumstances of the engagement.

We also describe potential unintended consequences of an engagement partner signature requirement. Such consequences may include inappropriate inferences about the partner based on his or her association with certain public companies, insufficient recognition given to the corporate governance process, potentially misleading information for investors, possible negative impacts on an engagement partner's liability, and foster reluctance by engagement partners to exercise professional judgment.

As more fully described below, we question whether an engagement partner signature requirement will enhance audit quality in a meaningful way.

<u>PERSPECTIVES ON ACCOUNTABILITY</u>

As mentioned above, a firm is required, in accordance with the PCAOB's standards, to establish and maintain a system of quality control. As part of that system, PCAOB standards place primary responsibility for the planning and supervision of the audit on the engagement partner.[2] However, as highlighted more fully below, the firm's system of

[1] Throughout this letter, we utilize "firm" to describe a registered public accounting firm, recognizing that generally all firms are either organized as partnerships or utilize organizational structures with similar characteristics.

[2] See PCAOB Interim Standards, AU Section 311, "Planning and Supervision"

quality control and the establishment and supervision of an engagement team are critical to the effectiveness of an engagement partner's ability to properly conduct the audit. In addition, partners, as owners in the firm, recognize the significance of their responsibility to the other partners in their firm, who will hold engagement partners accountable for their conduct, as will audit committees, regulators and investors. As such, we believe that the firm's signature on the audit opinion, which represents the firm's overall responsibility for the audit, and to which all members of the engagement team and the firm's system of quality control are accountable, provides the most meaningful indication of responsibility to investors. We provide additional perspective on these matters in the following paragraphs.

Firm's System of Quality Control and the Engagement Partner's Role

PCAOB standards set forth quality control standards with which registered public accounting firms must comply in order to provide reasonable assurance that the firms, and their personnel, comply with applicable professional standards.[3] Pursuant to these standards, a system of quality control should provide the firm with reasonable assurance that its personnel comply with the applicable professional standards and the firm's standards of quality. Such policies and procedures, which are a key element of the PCAOB's inspections of registered firms, should encompass the following interrelated elements:[4]

- Independence, Integrity and Objectivity
- Personnel Management
- Acceptance and Continuance of Clients and Engagements
- Engagement Performance
- Monitoring

These standards place accountability for the conduct of the audit on the firm. While the engagement partner clearly plays an important role within a firm's system of quality control, we highlight below how these elements illustrate the significance of the firm's system of quality control, and the engagement partner's role within, interaction with, and reliance upon such a system. This emphasizes the importance of holding the firm accountable for the audit and the fact that while the engagement partner plays a critical role in the conduct of the audit, a firm's system of quality control is integral to the performance of an audit in accordance with professional standards, and as such, the firm signature provides the most meaningful representation of the audit.

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[3] Pursuant to PCAOB Rule 3400T, the PCAOB provisionally designated the AICPA's Auditing Standards Board's Statements on Quality Control Standards (QC Sections 20-40), as in existence on April 16, 2003, as the PCAOB's Interim Quality Control Standards.

[4] PCAOB Interim Quality Control Standards – QC Section 20, paragraphs 3-7

Independence, Integrity and Objectivity

PCAOB standards require that a firm establish policies and procedures to provide it with reasonable assurance that personnel maintain independence (in fact and in appearance) in all required circumstances, perform all professional responsibilities with integrity and maintain objectivity in discharging professional responsibilities.[5] Policies and procedures that firms establish in response to these requirements vary based on a firm's individual facts and circumstances, but often include codes of conduct, independence policies and training to emphasize the importance of all of these components within the firm. Of significant importance is the manner in which the firm fosters an environment of integrity and objectivity, as evidenced through the actions of individuals at all levels of the firm. In addition, firms generally have procedures to monitor the independence of both partners and employees of the firm, as well as the firm itself.

Engagement partners clearly play a significant role in fostering an environment of integrity and objectivity within the engagement team in the conduct of the audit. However, in many cases, the engagement partner, by necessity, is reliant on the firm's system of quality control for monitoring compliance with aspects of the firm's policies and procedures related to his or her particular audit client. For example, employees of the firm are responsible for certifying their independence with respect to audit clients of the firm, including financial interests. Typically, especially in larger audit firms, engagement partners rely upon these certifications, as well as the firm's process for evaluating compliance, when concluding whether or not issuance of an audit report is appropriate.

Personnel Management

PCAOB standards require a firm to establish policies and procedures related to hiring, assigning personnel to engagements, professional development, and advancement activities to provide the firm with reasonable assurance that personnel are competent, have appropriate technical training and proficiency, satisfy continuing professional education requirements, and are qualified when selected for advancement.[6] PCAOB standards also require an engagement quality review of each audit report prior to issuance.[7] Firms typically establish policies related to these matters. For example, firms generally have policies for the assignment of personnel to engagements, including partners with final responsibility for the audit and partners responsible for performing the engagement quality review, which consider the requisite skills and risk associated

[5] PCAOB Interim Quality Control Standards – QC Section 20, paragraphs 9-10

[6] PCAOB Interim Quality Control Standards – QC Section 20, paragraphs 11-13; QC Section 40

[7] PCAOB Interim Standards - SECPS Section 1000.08(f); Appendix E, Section 1000.39. In addition, on July 28, 2009, the PCAOB adopted Auditing Standard No. 7, "Engagement Quality Review," which, if approved by the SEC, replaces the PCAOB Interim Standards related to an engagement quality review.

with the engagement. In addition, firms generally establish mechanisms to train personnel and to track compliance with continuing education requirements.

In the context of an audit, engagement partners have a responsibility to consider the specific skills of engagement team members and to supervise them accordingly. Engagement partners also play an important role in the professional development and evaluation of personnel, which in turn provides a significant input into the firm's advancement activities. However, as mentioned above, engagement partners are assigned to engagements based on the firm's evaluation of his or her skills and those required to perform the audit based on the firm's assessment of the company as described above. Engagement partners also do not select the engagement quality reviewer, whose role is to perform an objective review of the significant auditing, accounting and financial reporting matters prior to the issuance of the firm's audit report. Finally, engagement partners, especially in larger firms, must rely on a firm's system of quality control in assessing that personnel are compliant with firm policies regarding training and compliance with continuing professional education requirements.

<u>Acceptance and Continuance of Clients and Engagements</u>

PCAOB standards require firms to establish policies and procedures for client acceptance and continuance to provide reasonable assurance that the firm can complete engagements with professional competence and that risks associated with providing professional services in particular circumstances are appropriately considered.[8] Generally, these policies and procedures are developed and applied in a manner such that certain criteria are used to evaluate whether the firm should be associated with a particular client, as well as whether the firm has resources to enable it to perform the service both timely and competently.

Acceptance and continuance decisions are generally not made solely by the engagement partner, but are a collaborative effort that considers the input of other members of the firm. As such, audit clients represent clients of the firm, not just of an individual engagement partner.

<u>Engagement Performance</u>

PCAOB standards require firms to establish policies and procedures to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.[9] These policies and procedures should cover planning, performing, supervising, reviewing, documenting and communicating the results of each engagement including, where applicable, the engagement quality review and, where applicable, consultation requirements. These policies and procedures should also provide reasonable assurance that personnel refer to

[8] PCAOB Interim Quality Control Standards – QC Section 20, paragraphs 14-16

[9] PCAOB Interim Quality Control Standards – QC Section 20, paragraphs 17-19

authoritative literature and consult with individuals (e.g., specialists in technical areas of accounting, valuation, etc.) either inside or outside the firm under the appropriate circumstances. Firms generally develop policies and procedures in the areas noted above in order to establish uniform requirements for the conduct of audits. These policies and procedures often cover a number of areas, including when consultations are required (e.g., in situations where there are complex or unusual issues), the use of internal specialists (e.g., when dealing with areas involving significant valuation issues) and the manner in which engagement teams are required to coordinate and supervise work performed by other offices and/or firms.

While the engagement partner is responsible for supervising the overall conduct of the audit in order to provide reasonable assurance that the audit is conducted in accordance with professional standards, the firm's policies and procedures typically significantly influence the manner in which the partner exercises these responsibilities. In addition, the engagement partner is reliant on the firm's system of quality control in order to effectively perform his or her responsibilities. For example, in situations where consultation is required, policies at larger firms generally require the engagement partner to follow the advice of the party consulted and in those situations, the engagement partner is relying on the expertise of the individual and the firm's system of quality control to provide personnel with the appropriate competency and experience.

Another example includes situations where the audit team relies on work performed by other offices of the firm. In these situations, the engagement partner is typically responsible for establishing the scope and extent of work required to be performed by the other office as part of the overall audit plan. He or she is also responsible for evaluating the results of the work performed for the purpose of supporting the audit opinion. However, the engagement partner generally relies on the firm's system of quality control to provide reasonable assurance that the personnel assigned to the engagement comply with applicable professional standards and the firm's standards of quality.

Monitoring

PCAOB standards also require firms to establish policies and procedures that provide reasonable assurance that the other elements of quality control described above are suitably designed and are being effectively applied.[10] Such policies and procedures govern the ongoing evaluation of compliance with policies and procedures through internal inspections of audit engagements (and evaluation of engagement partners), the appropriateness of firm guidance and effectiveness of professional development activities. These procedures provide the firm with a means of identifying and communicating circumstances that may necessitate changes to or the need to improve compliance with the firm's policies and procedures.

[10] PCAOB Interim Quality Control Standards – QC Section 20, paragraph 20; QC Section 30

For example, internal inspections provide the firm with information regarding an audit team's compliance with the firm's policies and procedures. These reviews are an important input into the firm's evaluation of whether its policies and procedures are effectively applied. This evaluation is of significant importance to an engagement partner, as he or she typically must place reliance on the work performed by other audit teams – a common situation for audits of large public companies.

The above is intended to illustrate the significance of the firm's system of quality control in the performance of audits and to emphasize the importance of holding the firm accountable for the audit rather than one individual.

Accountability to Partners, Audit Committees, Regulators and Investors

Engagement partners are accountable to multiple parties with respect to the planning, supervision and execution of individual audits, including other partners within the firm, audit committees, regulators and investors. As further detailed below, the accountability that currently exists provides a significant incentive for engagement partners to conduct audits in accordance with professional standards.

Accountability to the Firm and Partners within the Firm

Engagement partners recognize that as owners, their actions affect the entire firm. The responsibility to one's partners is an important element of firm culture. With regards to individual audits, engagement partners are typically required to certify to the firm through various means that he or she has performed the audit in accordance with firm policies and professional standards. Pursuant to PCAOB standards, audits are also subject to an objective review of the significant auditing, accounting and financial reporting matters prior to the issuance of the firm's audit report. Finally, engagement partners are subject to evaluation by the firm through various other quality control processes, including internal practice reviews and performance evaluation processes. All of these create significant accountability for engagement partners to the firm.

Accountability to Audit Committees

The Sarbanes-Oxley Act of 2002 (the Act) places primary responsibility for the appointment, compensation and oversight of an issuer's auditing firm with the audit committee. This responsibility, combined with existing requirements for the audit firm to communicate significant audit matters to the audit committee, results in significant interaction throughout the year between the audit committee and the engagement partner. Such interaction provides the audit committee with the ability to hold the engagement partner directly accountable for the performance and conduct of the audit.

Accountability to Regulators

Partners are accountable to a number of regulators for their performance, including the PCAOB, the Securities and Exchange Commission (SEC or the

Commission), State Boards of Accountancy and other state and federal regulators. The PCAOB, as mandated by the Act, performs inspections to evaluate the sufficiency of the quality control system of a firm, which includes inspections of individual engagements to assist in that evaluation. Adverse PCAOB inspection findings provide an important source of information for consideration in the partner evaluation process.

Engagement partners are also subject to enforcement actions by the PCAOB and SEC for issuer audits. Determinations of improper professional conduct can lead to the censure, suspension or bar of an engagement partner's ability to appear or practice before the Commission or be associated with a registered public accounting firm, as well as monetary penalties. In addition, such determinations or additional findings of misconduct by State Boards of Accountancy can result in the suspension or revocation of an engagement partner's license, which would prevent him or her from practicing as a certified public accountant.

Accountability to Investors

Investors also have a number of ways to hold audit firms and the associated engagement partners accountable. For example, investors often have the ability to ratify the appointment of a registered public accounting firm as a company's auditor. In addition, investors can influence the composition of an issuer's board of directors, which in turn affects the composition of the audit committee (as noted above, the audit committee has primary responsibility for the appointment, compensation and oversight of the issuer's external auditor). Finally, investors have a number of avenues under federal and state securities laws to initiate civil litigation against audit firms and thereby hold them and their personnel accountable for the conduct in the audit of an issuer's financial statements.

The above highlight the significant means by which engagement partners are held accountable to all relevant stakeholders associated with audits of public companies.

Analogy to CEO/CFO Certifications

The PCAOB's Concept Release notes that some have suggested requiring engagement partners to sign the audit report would be similar to the requirement imposed on management by Section 302 of the Act because it might focus engagement partners on their existing responsibilities (the intent of Section 302 was to hold management responsible for the representations of their company). In response to the corporate scandals earlier in this decade, the Act intended the certification requirements to clarify management's responsibility for the information included in periodic reports filed with the SEC.

In contrast, professional standards have always held the engagement partner responsible for the planning and conduct of the audit. Professional standards outline such responsibilities, which include requirements for firms to monitor engagement partner compliance through the firm's system of quality control. Therefore, given the clarity of the engagement partner's role under professional standards, as well as the multiple means by which he or she is held accountable, it is unclear how a requirement for engagement partners to sign the audit report will provide any additional clarity or emphasis on a partner's existing responsibilities.

Summary

The CAQ believes the above illustrates the importance of the accountability that already exists for the engagement partner to various parties under current professional standards and highlights the significance of the firm's system of quality control to the audit and the engagement partner's interaction with, and role within, that system.

PERSPECTIVES ON TRANSPARENCY

The Concept Release indicates that enhanced engagement partner transparency may provide information that is useful to investors when making investment decisions, and to audit committees in retention decisions. However, it is important to highlight that the identity of the lead engagement partner is readily available to those parties that have authority over the auditor – the audit committee as well as applicable regulators.

Audit Committee

Audit committees are keenly aware of the identity of the lead engagement partner through the audit appointment process, periodic required communications, meetings and other communications throughout the audit process. As mentioned above, Section 301 of the Act places responsibility for the appointment, compensation and oversight of the work of the audit firm with the audit committee in its capacity as a committee of the board of directors. As such, the audit committee is responsible for representing investors with regards to the company's relationship with the external auditor. The audit firm reports directly to the audit committee for the purpose of preparing or issuing an audit report or related work and regularly communicates with the audit committee. Such communications generally include the following:

- Information regarding the scope and results of the audit,
- Information regarding the company's initial selection of and changes in significant accounting policies or their application,
- The methods used to account for significant unusual transactions,
- Management's process in formulating particularly sensitive accounting estimates,
- Adjustments identified during the audit,
- The auditor's judgments about the quality of the entity's accounting principles,
- The nature and resolution of any disagreements with management, and
- The nature of any difficulties encountered in performing the audit.[11]

These communications, combined with additional communications regarding independence, the audit committee pre-approval process, the audit committee's experience with the company and its interaction with management, provide the audit committee with the context necessary to perform its oversight of the external auditor, including evaluating the performance of the audit engagement partner.

[11] As outlined in PCAOB Interim Standards AU Section 380.

Regulators

As discussed above, public company auditors are subject to multiple layers of oversight by various entities including the SEC, the PCAOB, State Boards of Accountancy and other federal and state regulators. Regulators have the ability to readily identify the lead engagement partner on any public company audit.

Shareholders

As mentioned above, shareholders often have the ability to ratify the appointment of a company's external auditor. In a number of situations, such as at large, widely held companies, engagement partners typically attend the annual general meeting and are available to answer appropriate questions. Thus, while we recognize that it is not practicable for all shareholders to attend a company's annual shareholder meeting, it does illustrate that there is visibility and access to the engagement partner on at least an annual basis.

Summary

Based on the above, the CAQ believes that significant transparency exists with respect to the audit engagement partner for those parties with both the context and governance authority to act upon it. Other users may not necessarily have the appropriate context by which to evaluate the engagement partner and as such, the PCAOB should consider the potential consequences that could result from providing the identity of the partner, some of which are outlined below.

POTENTIAL UNINTENDED CONSEQUENCES

We believe that such a requirement could result in a number of unintended consequences, such as drawing inappropriate inferences, insufficient recognition given to the corporate governance process, providing potentially misleading information for investors (as to the role of the engagement partner in general and by implying to investors and other users that there has been a substantive change in the role of the engagement partner when, in fact, no such change was intended by the PCAOB), litigation considerations and an impact on the engagement partner's use of his or her professional judgment, as more fully detailed below.

Inappropriate Inferences

Investors and other users of audit reports may believe that knowing the identity of the lead engagement partner will help them better evaluate or predict the quality of a particular audit. However, as detailed above, while the engagement partner plays an important role in the conduct of an audit, an audit's success is dependent upon a firm's system of quality control. Users could draw inappropriate or inaccurate inferences about the audit based solely on the identity of the engagement partner. These inferences may result from circumstances about a company that do not have a direct linkage to the audit, and users may not properly consider the support of the firm's system of quality control and the role of the engagement partner. Such inferences may result, after several years, in the collection of very limited data that is incomplete and potentially inappropriate. A few examples where inappropriate and incomplete inferences may be drawn are as follows:

- There may be situations at companies (e.g., bankruptcy, going concern uncertainty, adverse analyst coverage, activist concerns, etc.) that may not relate to the audit or to audit quality. In these situations, users may attempt to draw conclusions as it relates to the engagement partner where there is no direct link to audit quality.

- Judgments may be made about the engagement partner's expertise that do not consider the important contributions of others involved in the audit (e.g., other partners, specialists, etc.). These other partners and specialists can play a significant role in a given audit engagement, as described earlier in this letter.

- Investors and other interested parties may devise a "scorecard" for engagement partners that would allegedly measure their expertise, experience and other factors based on characteristics of companies for which he or she has signed audit opinions. It is likely that these "scorecards" would not appropriately consider the partner's experience outside the public company audit context or the role of the firm's system of quality control, including the involvement of other partners and specialists. A potential impact of these inferences may be that engagement partners become overly concerned with such a "scorecard" and, therefore, become reluctant to be associated with certain issuers, which may adversely impact the firm's system of quality control.

Lastly, conclusions drawn from inferences such as those detailed above may result in unintended consequences for smaller firms, who may not be perceived to have as robust a "scorecard" as compared to partners at larger firms, which may impact their ability to compete for audits of public companies.

Insufficient Recognition Given to the Corporate Governance Process

Investors are represented through a company's board of directors and its audit committee. The Act places responsibility for engaging the audit firm, including the engagement partner with the audit committee. Under current governance structures, shareholders and other investors will never have the same level of information by which to evaluate the auditor as the company's board of directors and/or audit committee. As such, providing the name of the engagement partner may lead investors to place insufficient recognition on the existing governance structure where they may work through their board and audit committee for representation. Instead, they may believe that it is appropriate to contact the engagement partner directly to ask questions about the audit, the company's financial statements, or other matters. However, partners may be unable to answer questions from shareholders about the company or the audit, due to professional responsibilities with respect to confidentiality of client information and legal issues with respect to disseminating non-public information.

A signature requirement could also result in shareholders placing undue influence on audit committees regarding firm decisions on partner selection, rotation and assignment. Such shareholder actions may be motivated by inferences drawn without the benefit of the same level of information as the company's audit committee. We believe that such an outcome would be contrary to the manner in which state and federal laws provide for a company's board of directors (and related committees) to be accountable to a company's shareholders.

Potentially Misleading Information for Investors

A signature requirement could place too much emphasis on one partner and be misleading to investors in terms of how an audit is accomplished. An audit is performed by a team of people, and companies with multiple locations may have multiple groups of auditors as part of the team. In these instances, the lead engagement partner relies on numerous specialists, audit partners, managers and others to complete the audit. It is for this reason that audit firms have established policies and procedures – they provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards and regulatory requirements, as well as the firm's standards of quality. Rather than focusing on an individual partner, investors should be focused on assessing the quality of the firm.

When considering the analogy to the Section 302 certifications noted in the PCAOB's Concept Release, the 302 certifications, among other items, provides that certifying officers are responsible for establishing and maintaining an issuer's disclosure controls and procedures and internal control over financial reporting. This is not analogous to a partner's role in the context of an audit. As detailed above, professional standards require the audit firm to maintain a system of internal control that provides reasonable assurance that its personnel comply with the applicable professional standards and the firm's policies and procedures. While the engagement partner clearly plays a significant role in the implementation of a firm's system of quality control, we are concerned that investors' and others' understanding of these processes may over-emphasize the engagement partner's role within that system or even confuse the role of the auditor with that of management.

Litigation Considerations

The Board noted in the Concept Release that it did not intend for a signature requirement to increase the liability of engagement partners. As also noted in the Concept Release, a signature requirement may cast doubt on an engagement partner's ability to raise important defenses to private claims under Section 10(b) of the Securities Exchange Act of 1934 in some courts.[12] We believe that the requirement for an engagement partner to sign an audit report in his or her individual name would likely make it more difficult to

[12] The Concept Release notes that courts are divided regarding when an individual may be subject to primary liability under Section 10(b) for conduct relating to the misstatement of others. Some courts, including the Second Circuit, require a misstatement to be attributable "to the *specific actor*" that is alleged to have made it "at the time of public dissemination." *Wright v. Ernst & Young LLP*, 152 F.3d 169, 175 (2d Cir. 1998).

claim successfully that the alleged misstatement cannot be attributed to him or her in some courts. In this respect, we believe a signature requirement would likely increase the risk of liability to a partner. Moreover, there are other areas of the federal and state securities laws where it is unclear whether a signature requirement would increase an engagement partner's liability.[13] We therefore strongly encourage the PCAOB, to the extent it determines to proceed with further consideration of such a requirement, to perform a thorough analysis on the potential impact an engagement partner's signature may have on litigation.

In addition to the potential increased liability risks, we believe that a signature requirement would result in more engagement partners being named in lawsuits and becoming involved in regulatory actions, which would increase a firm's costs associated with these proceedings. Signatures would heighten the visibility of engagement partners and, as a result, increase the likelihood that engagement partners could become the subject of litigation or regulatory scrutiny when there is any question regarding an issuer's financial statements. In addition, and perhaps more importantly, such additional exposure (whether real or perceived) could impact an engagement partner's behavior in ways that may not foster enhancements in audit quality. For example, a real or perceived risk of additional exposure may reduce an engagement partner's willingness to utilize his or her professional judgment or may reduce the number of partners willing to participate in audits of higher risk companies.

However, if the PCAOB decides to propose a requirement for an engagement partner to sign the audit report, we believe that it is imperative that an effective safe harbor be put in place. Such a safe harbor would be consistent with the Board's intention and the final report of the Treasury Advisory Committee on the Auditing Profession, which noted that a signature requirement should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm. Due to the importance of such a provision, in the event a proposal moves forward, we recommend that the PCAOB coordinate with the SEC to ensure that the appropriate rulemaking occurs to provide protection for engagement partners consistent with the Board's intention.

Use of Judgment

We believe that an engagement partner signature requirement may create perceptions of additional personal risk and responsibility by engagement partners, motivating negative behaviors that do not presently exist. For example, an increased perception of personal risk and responsibility may reduce an engagement partner's willingness to utilize his or her own professional judgment and, therefore, result in an increase in the demand for more guidance with "bright lines." The application of professional judgment is an important element of the audit process – it allows for the application of a risk-based audit approach as well as the application of professional skepticism in assessing the procedures

[13] For example, Section 11 authorizes claims against "every accountant" who "has with his consent been named" as "having prepared or certified" any part of the registration statement or any report or valuation used in connection with it. 15 U.S.C. § 77k(a)(4). A signature requirement could make it easier to sue an engagement partner under Section 11 based on the individual's signature on audit reports.

that may be necessary and appropriate under the circumstances. While we believe, as stated previously, that there are significant means by which partners are held accountable to all relevant stakeholders, we are concerned that an outcome that discourages their use of professional judgment in the conduct of audits will not enhance audit quality.

CONCLUSION

The Board requested whether there was any empirical data or other research that would indicate that a requirement for the engagement partner to sign the audit report would improve the focus on his or her existing responsibilities. We are not aware of any empirical evidence that would suggest there is a direct link between a signature requirement (or disclosure of the engagement partner) and audit quality.[14] However, as we have noted above, we believe that existing professional requirements, organizational structure of audit firms, and the current regulatory environment provide for significant accountability of both the engagement partner and the audit firm. In addition, we believe there is significant transparency regarding the engagement partner to those charged with oversight of the audit. Therefore, such parties are in the best position to hold the audit firm (including the engagement partner) accountable. We encourage the PCAOB to consider the potential unintended consequences of such a requirement on audit quality, as well as to investors and other users of such information, in conjunction with its evaluation of any potential benefits of such a requirement.

* * * * *

[14] We are aware of a body of behavioral research on manipulated accountability pressures. These studies tend to be conducted on students, or auditors with somewhat limited experience (e.g., an average of 2 – 4 years). See DeZoort et al., "Accountability and auditors' materiality judgments: The effects of differential pressure strength," *Accounting, Organizations and Society* 31 (2006) 373–390, Table 1 for a summary of accounting studies that manipulated accountability pressure). While the authors suggest that increased accountability levels induced more complex and careful analysis of available information, they also admit that they did not test possible intervening controls, such as reviews by superiors and peer review. These are activities that are built into the audit process by the firms, and thus the experiments do not accurately reflect how decisions are made during an actual audit. Further, the authors acknowledge that in a real audit, the auditors have multiple sources of accountability – superiors, audit committees, client management and regulators.

We appreciate the opportunity to comment on the Concept Release and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations.

Sincerely,

Cynthia M. Fornelli

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

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September 11, 2009

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 29
Concept Release on Requiring the Engagement Partner to Sign the Audit Report
July 28, 2009

Dear Board Members,

We would like to begin by expressing our appreciation and thanks to the Board members for their commitment to enhance audit quality and improve the public's confidence in our financial markets. Cherry, Bekaert & Holland, L.L.P., like the vast majority of the profession, academia and regulators, is equally committed to continuous improvement in the quality of financial reporting and the resulting economic benefit to the financial marketplace and society as a whole. However, we believe the Board members should ensure that their efforts to improve the public's confidence in the marketplace are based on changes that enhance all aspects of the financial reporting process and, when considering the associated costs of such changes, not implement changes that provide marginal benefits, or which have the potential to provide a false sense of security to the investing public.

Prior to responding to the specific questions contained in the concept release, we would like to make some general comments on the proposal.

We recognize the benefits of transparency in financial reporting and understand the perceived benefits of requiring the engagement partner to individually sign the audit report. However, we believe there will be many unintended consequences of imposing this requirement. First and foremost is the potential for increased individual liability to the partners. The United States is the most litigious country in the world; and to date, lawmakers have not addressed the issue of tort reform. Therefore, we are concerned that future safe harbor provisions designed to ensure that the engagement partner signing a report individually not impose any duties, obligations or liability that are greater than those currently imposed. As a result, we anticipate that the number of partners willing to sign public company audit reports, and indeed, the number of firms willing to undertake this type of work, will be negatively impacted.

We believe there will be unintended consequences beyond the confines of the courtroom. Although the investing public is well aware of the debacles of Enron and WorldCom, there are countless other well conceived and properly executed audits performed on entities that ultimately fail. Companies most often fail because of poor management, bad decisions or the inability to rapidly change in reaction to changes in market conditions. Partners and their families may be unnecessarily exposed to the public scrutiny, harassment, and in extreme cases, threats or bodily harm without the benefit of due process. Due to the professional confidentiality requirements and other laws and regulations, like Reg. FD, partners will be unable to defend themselves in the public forum while they clearly will be targeted in that same public forum. We believe there are many high quality audit firms that provide audit services to a small number of registrants that will determine that they do not have the desire or the resources to battle this scrutiny and will cease to provide audit services to public companies, thereby further consolidating the profession and driving up audit costs.

Next, we believe another unintended consequence of requiring the partner to sign the report is to create the impression that he or she individually has the ultimate responsibility and authority to sign the report. Having one partner's signature may mislead users as to the degree of responsibility taken by the individual. Our professional standard setters, recognizing the highly complex environment in which we all operate, have wisely mandated that all public company audits require a quality reviewer and that firms' establish consultation processes for dealing with new and/or complicated accounting and audit issues. This clearly shows that our standard setters recognize the importance of establishing a working environment that fosters collaboration and requires the approval of more than one partner to ensure quality.

Further, the comment that requiring a partner to sign individually will somehow enhance audit quality appears to us to be misguided. As discussed in the transcripts of the Standing Advisory Group posted on the PCAOB website, there appears to be no empirical evidence from countries that employ this requirement that supports the assertion that audit quality improved. The truth is that substantially all CPAs take this responsibility seriously and the very few that do not will not be affected in any way by this new requirement. If a CPA performs substandard work, then that CPA currently is at risk of losing his or her privilege to practice and indeed this would impact their livelihood. To think that adding a requirement to individually sign a report would be more sobering to anyone signing a report than knowing that every report they sign exposes their future career and livelihood is simply not a rational consideration and to expect it in any way to impact the quality of work is likewise not a rational conclusion. If someone is willing to expose their ability to practice in their chosen profession by signing a report when the work is substandard, they would likely not alter their behavior if they were required to individually sign the report.

Finally, we should consider the beneficial impact of the programs already in place. Professional standards in the United States already require that (1) firms implement quality control standards that include internal monitoring to ensure quality, (2) partners' compensation system must factor in quality performance, (3) firms must participate in peer review and, (4) are subject to review by regulators in regulated industries, state boards of accountancy, the SEC and PCAOB. These are the monitoring and review systems that truly ensure the quality and integrity of financial reporting; we must continue to reevaluate their efficacy and look for opportunities for improvement while not overburdening the financial markets with unnecessary and ineffective regulations.

Following, please find our responses to the specific questions posed in the Concept Release:

1. **Would requiring the engagement partner to sign the audit report enhance audit quality and investor protection?** No as described in our general comments, we do not believe that such a requirement will impact audit quality, nor will it enhance investor protection. In fact, such a requirement may have the opposite effect on investor protection by providing a false sense of security to investors which may result in a reduced level of due diligence and consideration on their part when evaluating any specific investment alternative.
2. **Would such a requirement improve the engagement partner's focus on his or her existing responsibilities?** While we do not have any empirical evidence to support our belief in this area, we do not believe that such an effect will be evidenced. Further, if this "improved focus" is the primary benefit to be gained by this proposal, we would suggest that as an alternative, the audit firm be required to file with the SEC, on a confidential basis, a report signed by the engagement partner individually on behalf of the firm. This would serve to improve the focus of the engagement partner without having many of the unintended consequences that the current proposal contains.
3. **Would disclosure of the engagement partner's name in the report serve the same purpose as a signature requirement, or is the act of signing itself important to promote accountability?** While we do not support the conclusions in this concept release or the disclosure of the partners' name, we believe that disclosure would have the same impact as a signature.
4. **Would increased transparency about the identity of the engagement partner be useful to investors, audit committees, and others?** We believe that this information would actually impose a significant risk to investors and others in that they might draw inappropriate conclusions based on this information regarding a partner's skills and experiences. For example, if a partner and a firm only signed one public company report in a particular industry, but focused the majority of their audit practice serving non-public clients in that particular industry would they be perceived as having less expertise and experience than a partner signing two public company reports in that industry but those were the only two clients in that industry served by the partner and their firm? We believe that there is a very real risk that outside parties might well reach a conclusion that the signer of the two reports was more experienced and qualified than the individual signing one report; however, such conclusion would be unwarranted and potentially inappropriate.
5. **Would such information allow users of audit reports to better evaluate or predict the quality of a particular audit? Could increased transparency lead to inaccurate conclusions about audit quality under some circumstances?** We believe that the answer to part one is no and to part two is yes based on the belief by a number of underwriters that a national firm signature on a report somehow makes an underwriting more likely to succeed. We believe that this is an indication that there is some implied quality difference based on a national firm signature when compared to a regional or local firm signature. When reviewing the various inspection

reports made public by the PCAOB, this does not appear to be warranted. There are a number of very good regional and local firms that have similar or in some instances better results than those national firms and yet the perception by the underwriters about relative quality still remains. We believe that an individual signature will bear a similar risk, that is, a reader may make the automatic conclusion that because a partner signs five or six reports they must perform a higher quality audit than a partner only signing one or two reports-this simply is not the case.

6. **Are there potential unintended consequences of requiring the engagement partner to sign the report that the Board should be aware of?** We believe that there are indeed unintended consequences that the Board should consider in making its decision in this matter. Among these is a reduction in the number of firms that are willing to sign public reports and even within those firms, the number of people who are willing to serve public companies will decline. Within our firm, there have already been a number of questions expressed by the partners currently serving public companies as well as expressed concerns about the desirability of continuing to serve in that capacity should this proposal be approved. We believe that on significant multi-location engagements where there are a number of partners involved, the decision about who the engagement partner is may not adequately address the desired transparency and may be highly misleading. As a direct result of the reduced competition, fewer firms and partners willing to work on these engagements, audit fees will be driven up, and a number of public companies may go unserved. The proposal if enacted will expose individuals to unwarranted publicity and in fact may expose them to physical danger. It is a fact of our society that when bad things happen, there is a tendency to immediately seek to establish blame. What an easy target we are making of the signing engagement partner when we provide a name and an office location for that individual.
7. **The EU's Eighth Directive requires a natural person to sign the audit report, but provides that "in exceptional circumstances, Member States may provide that this signature does not need to be disclosed to the public if such disclosure could lead to an imminent, significant threat to the personal security of any person" if the Board adopts an engagement partner signature requirement, is a similar exception necessary? If so, under what circumstances should it be available?** While in concept this is a good thought, the reality is that the circumstances that would dictate such a need will typically arise after such signature has already been published. We would again request consideration of making the individual partner signature a requirement in a supplemental confidential filing to the SEC rather than placing it in the public domain.
8. **What effect, if any, would a signature requirement have on an engagement partner's potential liability in private litigation? Would it lead to an unwarranted increase in private liability?** Would it affect an engagement partner's potential liability under provisions of the federal securities laws other than Section 10(b) of the Securities Exchange Act, such as Section 11 of the Securities Act of 1933? Would it affect an engagement partner's potential liability under state law? We believe that much of this question is a matter of law and decline to comment on matters of law. However, we believe that by publishing the engagement partner's name there will definitively be an increase in private litigation against individual partners.

9. **Are there steps the Board could or should take to mitigate the likelihood of increasing an engagement partner's potential liability in private litigation?** We believe that the Board should reconsider its position that this information be made public. Should the Board desire an individual partners signature on a report, we would recommend that such signature be produced on a separate opinion and afforded confidential treatment by the SEC.
10. **Some commenters on the ACAP Report who expressed concern about liability suggested that a safe harbor provision accompany any signature requirement. While the Board has no authority to create a safe harbor from private liability, it could, for example, undertake to define the engagement partner's responsibilities more clearly in PCAOB standards. Would such a standard-setting project be appropriate?** We believe that such a project would contribute more to enhancing audit quality than the requirement of affixing an individual signature to an audit report. It would ensure that any partner signing a report had performed at least the minimum level of work required by the standards. Additionally, it would allow the PCAOB the ability to critique an individual partner's performance when they performed their reviews rather than simply focusing on the quality of issued engagements and a firms system of quality control. We believe this would also serve to enhance partner accountability as a partner signing a public company report would know that they would be subject to the PCAOB inspection of their performance as well as the engagement results.

The Partners of Cherry Bekaert & Holland, L.L.P. are proud of our chosen profession, honored to be associated with the other professional CPA firms in our industry who are equally committed to provide the highest level of quality service to all of our clients and the investing public.

Thank you for the opportunity to express our views on this important matter.

Sincerely,

Cherry, Bekaert & Holland, L.L.P.

Cherry, Bekaert & Holland, L.L.P.

By: Raymond R Quintin, Director of Accounting and Auditing

Council of Institutional Investors
The Voice of Corporate Governance

September 4, 2009

J. Gordon Seymour
Secretary and General Counsel
Public Company Accounting Oversight Board
1666 K St NW
Washington, DC 20006-2803

Re: Concept Release on Requiring the Engagement Partner to Sign the Audit Report (PCAOB Rulemaking Docket Matter No. 29)

Dear Mr. Seymour,

The Council of Institutional Investors ("Council") appreciates the opportunity to provide comments on the Concept Release on Requiring the Engagement Partner to Sign the Audit Report ("Concept Release"). The Council is an association of public, corporate, and union pension funds with combined assets of over $3 trillion.

As a leading voice for long-term, patient capital, we believe that accurate and reliable audited financial statements are critical to investors in making informed investment decisions, and vital to the overall well-being of our capital markets. That strong belief is reflected in the following Council policy on "Independence of Accounting and Auditing Standard Setters" unanimously approved in 2007, and updated in 2008, by our General Members:

> Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. The efficiency of global markets—and the well-being of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures. The quality, comparability and reliability of that information, in turn, depends directly on the quality of the . . . standards that . . . auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions.

Consistent with our policy, the Council believes that accountability and transparency are key features of a reliable audit worthy of investor confidence. Requiring the engagement partner to sign the audit report will enhance audit quality and investor protection by strengthening auditor accountability and improving the transparency of the audit process. The Council accordingly supports the Public Company Accounting Oversight Board's (PCAOB) Concept Release.

Although a public company audit relies on the work of many highly skilled professionals, the engagement partner plays a unique role in ensuring the overall quality of an audit. That role includes responsibility for planning the audit, supervising engagement team members, and determining whether the financial statements taken as a whole are fairly stated. Given the importance of those tasks to audit quality, the simple step of requiring the engagement partner to sign the audit report will produce valuable returns for investors.

The Council strongly believes that investors should be involved in auditor oversight and accountability. More specifically, as indicated by the following Council policy, we believe shareowners should have the opportunity to vote annually on the board's choice of independent, external auditor:

> **Shareowner Votes on Board's Choice of Outside Auditor:** Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor. Such provisions should state that if the board's selection fails to achieve the support of a majority of the for-and-against votes cast, the audit committee should: (1) take the shareowners' views into consideration and reconsider its choice of auditor; and (2) solicit the views of major shareowners to determine why broad levels of shareowner support were not achieved.

In order to cast an informed vote on the auditor selection and effectively engage the board if needed, investors require information surrounding factors materially affecting audit quality. Although the identity of the engagement partner generally is not a secret, prominently displaying the name and signature of the lead auditor on the audit report will draw investors' attention to this important role and its impact. As the Concept Release describes, the lead auditor's signature will motivate both investors and the board to "evaluate the extent of an engagement partner's experience on a particular type of audit and, to a degree, his or her track record." Greater transparency regarding the background and experience of the lead auditor will help investors better assess the rigor of the audit process, and by extension, the quality of the financial statements.

Armed with valuable information provided by the lead auditor's signature, investors and boards will demand skilled engagement partners. The Council consequently believes that enhanced focus on the performance of the lead auditor will motivate audit firms to strengthen the quality, expertise, and oversight of their engagement partners. By more explicitly tying the lead auditor's professional reputation to audit quality, requiring engagement partners to sign the audit report will further result in better supervision of the audit team and the entire audit process.

The benefits of the lead auditor’s signature have been recognized by a wide range of experts. On October 6, 2008, the Treasury Department’s Advisory Committee on the Auditing Profession (ACAP) issued its final report, which concluded “that the engagement partner’s signature on the auditor’s report would increase transparency and accountability.” The Committee accordingly urged “the PCAOB to undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report.” In addition to the Council’s executive director Ann Yerger, ACAP included “a philosophically diverse, talented, and committed group of investor, business, academic, and institutional leaders . . . sensitive to the views of auditors (both large and small), public companies, investors, professionals, and the teaching profession.”

In light of the enhanced transparency and accountability resulting from the signature of the engagement partner on the auditor report, the Council strongly supports the PCAOB’s Concept Release. Please do not hesitate to contact me if you have any questions or would like additional information regarding our views on this important matter.

Sincerely,

Jonathan D. Urick

Jonathan D. Urick
Analyst
Council of Institutional Investors

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September 11, 2009

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

RE: **PCAOB Rulemaking Docket Matter No. 029,**
Concept Release on Requiring the Engagement Partner to Sign the Audit Report

Dear Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") Concept Release on Requiring the Engagement Partner to Sign the Audit Report (the "Concept Release").

We do not believe the PCAOB should continue to develop the matters in the Concept Release, or propose a new audit standard that would require the engagement partner to sign the audit report. The concepts discussed in the release are not needed, and are likely to create problems for audit report users as well as audit firms. Such a requirement may confuse users of audit reports so would not serve the public interest, and thus would not further the PCAOB's mission. Specific observations and comments are in the following paragraphs.

The ideas suggested in the Concept Release would not enhance audit quality. We believe the PCAOB should focus standard setting initiatives on matters that can positively impact audit quality. Those matters would generally be put in place through an audit firm's system of quality control, not via focus on the single position of the leader of the engagement team.

The engagement partner's identity is well known to each issuer's audit committee. The audit committee is the function which has primary oversight for the audit, representing investors and accountable to investors for audit activity. The audit committee's detailed knowledge of an entity and its needs puts them in the best position to use and act on knowledge of the identity of the engagement partner. The engagement partner's name is also known to the audit regulator during the PCAOB inspection process or at any other time the PCAOB wants to know the identity. It is not likely that others could use the name of the engagement partner for an effective purpose.

The matters discussed in the Concept Release, if advanced to an audit standard, could weaken audit quality. The overall quality of audits produced by a firm is primarily dependent on two inputs: 1) the audit firm's system of quality control, and 2) the knowledge and experience of a large group of personnel that perform within the firm's system of quality control. The focus on one individual, rather than the more important and larger role of a firm's system of quality control, is not warranted and could mislead users by implying reliance on primarily one person. Large sophisticated audits rely on large groups of personnel and undue focus on the engagement partner position implies diminished importance of that large coordinated team.

The Concept Release, and several references therein, speak to a purported analogy between a requirement to have the engagement partner sign the audit report and CEO and CFO certifications. That analogy is imperfect, as the purpose of the certifications is to clarify management's responsibilities. However, there is no uncertainty of the engagement partner's role and responsibilities as those are well defined in publicly available professional standards. The better analogy would be to compare the officer certifications to the signature of the audit firm, which identifies the entity responsible for the audit.

A requirement to sign the audit report by an individual who is assigned to represent the Firm as audit engagement partner will increase the potential for litigation against that individual, and will certainly increase overall cost of litigation defense. Also, such a requirement could lead to personal safety risks for the individual and/or their family. Issues such as these would likely have a significant negative effect on recruiting, retention, and development of personnel, which would have a long term negative impact on the overall quality of auditing.

Addition of an individual signature to audit reports creates a new reporting element which most users will not understand. Such a requirement would risk misleading users of financial statements.

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Crowe Horwath LLP supports the Board's efforts to improve its auditing standards. We hope that our comments and observations will assist the Board in its consideration of the matters in the Concept Release. If the Board has questions on the above comments, please contact Wes Williams.

Cordially,

Crowe Horwath LLP

Crowe Horwath LLP

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September 11, 2009

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: ***Concept Release on Requiring the Engagement Partner to Sign the Audit Report***
PCAOB Rulemaking Docket Matter No. 029

Deloitte & Touche LLP ("D&T") is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the "PCAOB" or the "Board") on its *Concept Release On Requiring the Engagement Partner to Sign the Audit Report*, PCAOB Release No. 2009-005; PCAOB Rulemaking Docket Matter No. 029 (July 28, 2009) (the "concept release"). We commend the PCAOB's decision to issue a concept release in order to obtain viewpoints from interested parties on this topic. Seeking input through a concept release enhances the transparency of the Board's standard setting process and promotes the development of high quality standards.

We believe changes in audit standards should be considered from the perspective of whether the change can be demonstrated to improve audit quality, and whether the costs and potential unintended consequences associated with the change are acceptable when compared to expected enhancements to audit quality. Evaluating changes in the audit standards based on such principles brings an important discipline to the standard-setting process.

The concept release offers two respects in which the signature requirement for the engagement partner may improve audit quality: by increasing the sense of accountability of the engagement partner for the work performed during the audit, and by providing meaningful transparency to the investing public.[1] We do not believe that the engagement partner signature requirement will meet the objective of improving audit quality in either respect. The suggested beneficial effects on accountability and transparency are speculative, and the concept release does not present evidence that an engagement partner signature requirement will enhance audit quality. However, the associated costs and burdens, including unintended consequences, are real and could be significant.

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1 *See* PCAOB Release No. 2009-005, at 5.

In order to assess certain aspects of the concept release, we thought it would be instructive to obtain the perspective of our firm's audit partners. In particular, because the concept release focuses on the notion that requiring the engagement partner's signature will increase their individual accountability, an empirical assessment as to what individual auditors believe the effect of a signature requirement would be seems appropriate.[2] We designed an anonymous survey to elicit reactions on the potential effects of the signature requirement. Many of the questions were open-ended, and allowed the individuals surveyed to expand upon their views. Results of this survey are presented at various points in this letter, but, as discussed in more detail below, the auditors responded that a signature requirement would not alter their already strong sense of accountability, and expressed significant concern about the adverse and unintended consequences that could result from the change.

In short, we do not believe the PCAOB should move forward with an engagement partner signature requirement, but rather should focus on other standard setting initiatives that will have a clear and demonstrable effect on improving audit quality.[3] If, however, the Board is inclined to move forward with the engagement partner signature requirement, we strongly recommend that before proceeding with a standard-setting initiative the PCAOB seek empirical evidence about the impact such a change would have on audit quality, including by commissioning academic research.

A. Requiring The Partner To Sign The Report Will Not Enhance Accountability Or Transparency, Nor Will It Improve Audit Quality.

1. The signature requirement will not enhance accountability.

Engagement partners already have a strong sense of accountability for the quality of the audit. The concept release nonetheless suggests that audit quality will be improved because a signature requirement would increase the partner's sense of accountability as he or she would exercise greater care in performing the audit. We are not aware of any evidence, however, to support the view that a partner would feel a greater sense of accountability by signing his or her name on the audit report in addition to signing the firm name.[4] Indeed, in surveying our audit

[2] We surveyed the partners in our audit practice on certain of the issues raised in the concept release and experienced a 37% response rate. Of these respondents, 90% currently work on public company audits and 81% have signed an opinion in connection with a public company audit in the last five years.

[3] One member of the PCAOB's Standing Advisory Group, David Becker, former member of the PCAOB's Standing Advisory Group and current General Counsel of the Securities and Exchange Commission observed at the October 22-23, 2008 SAG meeting: "I just hope that whatever the Board does in this . . . it spends most of its time on things that are much more important, and are going to have a more demonstrable effect on audit quality."

[4] Studies have been done with respect to auditor accountability and judgments in general. *See* DeZoort, T., P. Harrison, and M. Taylor, "Accountability and auditors' materiality judgments: The effects of differential pressure strength on conservatism, variability, and effort," *Accounting, Organizations and Society* 31 (4/5) 373–390, Table 1 (2006). However, studies directly related to partner signature on the audit report and the impact that it would have on accountability and audit quality have not been performed. Of the three studies on auditor

[Footnote continued on next page]

partners, 93% said that such a requirement would not increase accountability, and 98% said that such a requirement would not improve audit quality.

The notion that signing the audit report will increase partner accountability does not recognize that audit partners today are already held fully accountable through a variety of mechanisms. Audit partners are subject to multiple layers of internal quality control mechanisms and multiple sources of external oversight (such as audit committees, federal and state regulators, and the threat of civil liability). It is also important to recognize that both because of their own internal quality control mechanisms and significant external oversight, firms, too, are highly incentivized to be assured regarding the quality of their personnel, including engagement partners in particular. Of the 93% of the partners who responded that their sense of accountability would not change, a majority provided supplemental responses to articulate their views that they already feel a significant sense of accountability. As one respondent to the survey explained, "Based on PCAOB reviews, internal inspections, potential depositions, I believe partners are already well aware of their accountability."

As noted above, the firms have in place several layers of quality control mechanisms. Under current PCAOB standards, registered firms are responsible for and are required to establish a system of quality control that provides the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality. These internal quality control processes, which include elements related to, among others, independence, integrity, objectivity, personnel management, acceptance and continuance of clients, engagement performance, and monitoring, hold partners accountable to the firm for the performance of quality audits. Firms closely oversee partner compliance through:

- engagement quality assurance reviews,
- internal inspections,
- performance evaluations, and
- other monitoring, including through peer reviews, and remediation activities, including discipline when appropriate.

[Footnote continued from previous page]

accountability that have been relied on in support of the signature requirement, we note several key points about these studies: the data for each of the studies was gathered prior to the passage of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") and implementation of the resulting oversight and regulatory requirements, and, as a result, the studies do not take into account all of the ways in which partners are held accountable; the subjects for two of the studies predominately included auditors with an average of three years of experience or less; and none of the subjects in the studies were partners. *See* references in June 3, 2009 letter to the Board from Gramling, Carcello, DeZoort, and Hermanson to *id.* at 373-390; Johnson, V. E. and S. E. Kaplan, "Experimental evidence on the effects of accountability on auditor judgments," *Auditing: A Journal of Practice & Theory* 10: 96-107 (1991); Kennedy, J., "Debiasing audit judgment with accountability: A framework and experimental results," *Journal of Accounting Research* 31: 231-245 (1993).

As stated in PCAOB Quality Control Standard 20.03, "A firm [h]as a responsibility to ensure that its personnel comply with the professional standards applicable to its accounting and auditing practice." This reference to the responsibility of "a firm" supports the notion that the firm has responsibility for the audit report, not an individual partner and that the firm is already responsible for and incentivized to hire, train, retain, and assign personnel that have the qualifications necessary to fulfill the responsibilities they will be called on to assume.

Moreover, firms and individual auditors are subject to extensive external oversight by audit committees, federal and state regulators, and through the threat of civil liability, and other means as described in more detail below. These oversight mechanisms function in a variety of ways to bolster the strong sense of accountability already held by engagement partners. For example, engagement partners know that by not adhering to professional standards they risk being subject to individual scrutiny by one or more of the external oversight mechanisms in a way that puts at risk their reputation, personal assets, license and ability to practice, and livelihood. Beyond these risks, too, engagement partners are keenly aware that even if the external oversight is directed at the firm as a whole, and not the individual, an engagement partner's reputation and career prospects can be significantly impacted by such oversight. Simply put, an engagement partner's sense of responsibility cannot be overstated.

The multiple sources of external oversight include:

- *Oversight by the Audit Committee and Board of Directors:* The Sarbanes-Oxley Act requires audit committees to be directly responsible for the appointment, compensation, and oversight of the work of the independent auditor. As a result, the engagement partner is accountable to and reports to the audit committee (and through the audit committee to the board of directors). Further, on a regular basis the engagement partner meets with the audit committee and is required to provide certain communications at the completion of the audit. Throughout the audit process the engagement partner is evaluated by the audit committee and the board of directors.
- *PCAOB Oversight:* Engagement partners have a professional responsibility to adhere to PCAOB professional standards. Their work is subject to review by the PCAOB through regular and special inspections and through PCAOB investigations and enforcement proceedings.[5]
    - Regular PCAOB inspections include reviews of selected audit engagements, during which the PCAOB meets with the engagement partner about the audit and reviews the audit documentation and procedures performed.[6] Also as part of regular inspections, the PCAOB assesses whether the design and application of processes by the audit firm related to partner management

[5] Every registered firm and associated person of the firm (including engagement partners) has a duty under PCAOB rules to cooperate with such inspections. A failure to cooperate may result in disciplinary proceedings and potential sanctions by the Board. *See* PCAOB Rule 4006.

[6] All firms that are registered with the PCAOB and audit more than 100 issuers are subject to annual inspection by the PCAOB, and those registered firms that audit 100 or fewer issuers are inspected every three years.

(including evaluation, compensation, admission, termination, and disciplinary actions) provide assurance of an appropriate emphasis on audit quality.

- Special inspections (of registered firms, including the partners thereof) may be conducted at any time as authorized by the Board on its own initiative or at the request of the U.S. Securities and Exchange Commission ("SEC" or the "Commission").
- Investigations and enforcement proceedings by the PCAOB represent another significant way that the work of engagement partners is subject to extensive oversight. Being the subject of an investigation or enforcement proceeding can have serious ramifications for an individual partner, including the loss of reputation or even the ability to provide audit services to public companies. The prospect of this regulatory review presents a constant reminder to engagement partners of their accountability. And, as noted above, an investigation or enforcement proceeding, even if directed only at the firm, can have significant consequences for the engagement partner, even if he or she is not named.

- *SEC Oversight and Enforcement*: Auditors, including engagement partners, are also subject to SEC oversight and enforcement. Determinations of improper professional conduct can lead to the suspension or bar of an engagement partner's ability to practice before the Commission.
- *Oversight by State Licensing Bodies and Professional Associations:* Partners who sign audit reports are licensed certified public accountants. Licensing is determined by state licensing authorities that not only have the ability to determine who obtains and maintains a license, but also have the ability to discipline and sanction licensees. As a result of state disciplinary action, an auditor may have his or her license suspended or taken away, thereby losing the right to practice altogether. In addition, auditors are subject to oversight through disciplinary proceedings conducted by professional associations such as the AICPA and state professional societies.
- *Threat of Litigation:* Engagement partners are well aware that by their roles they risk becoming drawn into civil litigation involving federal and state law claims. Because civil litigation can have serious consequences for an individual partner, as well as for the firm as a whole, the threat of litigation acts as an additional source of an auditor's sense of accountability.

Separately, it has been suggested, as noted in the concept release, that a requirement for the engagement partner to sign the audit report would be similar to the requirement imposed by Section 302 of the Sarbanes-Oxley Act.[7] This comparison is inappropriate. Management of a public company has primary control over and responsibility for the financial statements; and, in

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[7] Section 302 requires that in each annual or quarterly report filed with the SEC, an issuer's CEO and CFO provide certain certifications.

passing Section 302, Congress was responding to concerns that CEOs and CFOs were trying to avoid that responsibility. By contrast, the responsibility and accountability of the engagement partner and the firm for the audit report is well-established and accepted. An individual signature of the lead audit partner is not needed to reinforce this responsibility.

Partners are already held to extremely high standards not only internally, but externally. They fully understand and accept these responsibilities, and in this way are fully accountable for their conduct. There is no other profession in which individuals are subject to such intense and comprehensive oversight. We do not believe that requiring a partner signature on an audit report will create any meaningful degree of change in a partner's sense of accountability or result in an improvement in audit quality.

2. *The signature requirement will not provide meaningful transparency.*

While not fully explaining how transparency will enhance audit quality, the concept release does suggest that additional transparency regarding who is responsible for the audit "could provide useful information to investors." It is unclear, however, how knowing the engagement partner's name would be useful in making investment decisions. The concept release emphasizes the ability to "track" a particular engagement partner's experience, which might, in turn, assist the investment community in evaluating the expertise and quality of the partner's work.[8] But the number of public company audits for which an individual may be a signing engagement partner would represent only a fraction of the relevant experience of an engagement partner. For example, an auditor may also perform audits for non-public companies, thereby gaining additional valuable experience. An investor will likely also be unaware of the individual auditor's other professional experience, as well as his or her education and ongoing training. None of these aspects of an engagement partner's qualifications will be reflected by an engagement partner's signature. Further, as discussed below, an audit is performed by a wide range of individuals within a given firm, and therefore, focusing the investment community's attention on "the" engagement partner will provide a distorted picture of how an audit really works and who is responsible for it.

Audit quality is reflective of a firm's quality control processes and procedures. Providing transparency regarding quality control processes and procedures would be more helpful to investors than identification of the audit partner because it is those processes and procedures that form the basis for being able to sign the firm's name on the audit report.

B. Significant Unintended Consequences May Result From The Engagement Partner Signing The Report.

As discussed above, we believe decisions by the Board regarding changes in audit standards should include consideration of expected costs and burdens (including unintended consequences), as well as anticipated benefits. In this case, the potential benefit, if any, resulting

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[8] *See* PCAOB Release No. 2009-005, at 9.

from a partner signature requirement are speculative. However, we believe significant costs and unintended consequences could result, as described below.

1. It will foster a misunderstanding about the audit process and role of the engagement partner, placing far too much emphasis on the role of a single individual.

The performance of an audit, while under the leadership of an engagement partner having final responsibility, requires the work of many professionals, including other members of the engagement team, additional partners, and members of the firm's quality control network who might be consulted in connection with the engagement. Each individual involved in an audit is responsible for adhering to professional standards, not just the engagement partner. Requiring the engagement partner to sign the audit report will serve to foster a misperception and lack of understanding about how an audit is conducted and who is responsible for it. Supporting this point, in surveying our audit partners, half of the respondents—answering an open-ended question—expressed their concern that requiring a partner signature is not consistent with how an audit is conducted. As an audit is a collaborative effort of all members of an engagement team and is the product of the team's collective experience, education, training, and expertise as well as the firm's quality control processes, the signature of a firm name on an audit report best presents how an audit is conducted.

Audit clients are considered clients of the firm and not of the individual partner who is assigned responsibility to lead the audit. Changing the current practice, which emphasizes the responsibility of the firm as a whole, including all of the individuals participating in the audit, to a practice which would place focus on a particular partner may result in clients being viewed as (or viewing themselves as) clients of the partner and not clients of the firm. This could serve to perpetuate a lack of understanding with respect to how an audit is conducted.

2. There will be additional legal exposure and costs, which may be significant.

As noted above, engagement partners are currently subject to extensive oversight and potential remedial action through, among other things, PCAOB and SEC enforcement actions and private litigation. The concept release acknowledges concerns about the effect of the engagement partner signature requirement on the partner's exposure to increased litigation and liability.[9] Importantly, the Board indicates that its "intent with any signature requirement would not be to increase the liability of engagement partners."[10] The possibility of this increased exposure, however, is real. The proposed signature requirement would potentially subject engagement partners to increased liability under the federal securities laws, as explained below. The signature requirement might also increase liability under state law. Although the full effects on liability may not be known at this stage, at a minimum, a personal signature requirement is certain to generate additional lawsuits and other proceedings against individual engagement

[9] *See* PCAOB Release No. 2009-005, at 4, 11–13.

[10] *See* PCAOB Release No. 2009-005, at 11.

partners, thereby raising litigation costs and the attendant burdens of litigation for the engagement partners and their firms.

As correctly noted in the concept release, a signature requirement might expose engagement partners to increased liability under Section 10(b) of the Securities Exchange Act of 1934. Courts are divided over when an individual may be subject to *primary* liability for conduct relating to misstatements not directly attributed to him or her. The Second Circuit, where a large number of securities lawsuits are litigated, holds that a misstatement is actionable under Section 10(b) only if it is "attributed to the *specific actor*" alleged to have made it (which, in the audit context, typically would include the firm).[11] Thus, in some jurisdictions, depending on the circumstances of the case, engagement partners who do not sign audit reports (as opposed to the firms that sign the audit reports) may be able to argue that they are not subject to Section 10(b) claims because they are not the "specific actor" to which a disputed audit report was attributed. The signature requirement could make it more challenging to assert that argument successfully.

The signature requirement could also subject engagement partners to additional claims under Section 11 of the Securities Act of 1933. For example, subsection (a)(4) of Section 11 creates private claims against "every accountant" who "has with his consent been named" as "having prepared or certified any part of the registration statement" or "any report or valuation which is used in connection with the registration statement."[12] Requiring personal signatures could increase the likelihood that plaintiffs will allege that individuals have provided "consent" to be so named. Because Section 11 "imposes a form of strict liability,"[13] broadening the reach of Section 11 claims could have a significant impact on litigation risks for engagement partners.[14]

In addition, new theories of liability often follow the establishment of new legal obligations, and the consequences of "creative pleading" are difficult to predict. Plaintiffs may assert that partner signatures give rise to new liabilities under common law and under the states'

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[11] *Wright v. Ernst & Young LLP*, 152 F.3d 169, 175 (2d Cir. 1998); *see also Ziemba v. Cascade Int'l, Inc*., 256 F.3d 1194, 1205 (11th Cir. 2001); *In re Cabletron Sys. Inc*., 311 F.3d 11, 41 (1st Cir. 2002) (holding that a complaint stated a claim under Section 10(b) against a company's outside directors, in part, because they signed a disputed Form 10-K).

[12] 15 U.S.C. § 77k(a)(4).

[13] *Greenapple v. Detroit Edison Co*., 618 F.2d 198, 203 (2d Cir. 1980).

[14] The concept release discusses the possibility of requiring the disclosure of engagement partners' names as an alternative to requiring their signatures. There is no basis to conclude that this alternative would generate less risk of liability or less litigation. For example, the jurisdictions that hold that misstatements are actionable under Section 10(b) only if attributed to a specific actor do not address a distinction between attribution by signature or other means. In any event, a disclosure rule would have all the same undesired consequences of making individual audit partners more visible targets in litigation, as discussed below in more detail.

varied blue sky laws. A signature requirement also could prompt prosecutors and regulators to target for review and potential action the conduct of engagement partners where they would not previously have done so.[15]

The adoption of a personal signature requirement would undoubtedly impose serious burdens on firms and engagement partners, regardless of how courts ultimately construe the effects of signatures on liability. A signature requirement is certain to generate increased claims against them. Naming individual engagement partners as defendants would often require retaining additional legal counsel. The threat of personal liability would add to the *in terrorem* effect of litigation, one effect being increased pressure to settle claims without regard to their merit. Novel theories of liability would generate costly disputes over issues of first impression.

Heightened regulatory oversight and litigation could itself trigger additional disclosures and invite yet another layer of review unrelated to the quality of the work on the particular audit—e.g., disclosures to state boards of accountancy, including when renewing CPA licenses. The increased risk of liability, or simply of being involved in regulatory or litigation proceedings, with the attendant effects on the engagement partner's professional reputation, career advancement, ability to practice, and financial well being, could exacerbate the existing pressures placed on the individuals who serve in that capacity, and affect their willingness to take on the engagement partner role. This unintended and unnecessary effect on the pool of qualified auditors should be avoided.

Although the concept release correctly notes that the European Union now requires its member states to adopt engagement partner signature requirements for audit reports, this does not support adopting the same requirement in the United States. It is well-recognized that the liability environment and legal systems in Europe and the United States are significantly different. For example, securities class actions, at least in the form they exist in the United States, are now not present in the United Kingdom or in the markets of other major European countries.[16] In the United States, private securities class actions resulted in $3.5 billion in settlement costs in 2005 alone, not including the massive $6.156 billion settlement in the *WorldCom* securities litigation.[17] This is but one example of how the serious risks posed by litigation in the United States are unique, and not comparable to those faced by firms and

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15 For example, prosecutors might assume that signatures would increase the likelihood of obtaining a conviction against an individual engagement partner under 18 U.S.C. § 1001, which criminalizes false statements to the government. At least one federal court of appeals has stated it does "not equate a statement issued by and in the name of a corporation with a statement by an individual." *United States v. Lange*, 528 F.2d 1280, 1288 (5th Cir. 1976). *But see United States v. Lanier*, 578 F.2d 1246, 1250 (8th Cir. 1978).

16 Luigi Zingales, *et al.*, Committee on Capital Markets Regulation, *Interim Report of Comm. on Capital Markets Regulation*, at 11, 75 (Nov. 30, 2006).

17 *Id.* The Committee on Capital Markets Regulation also reported that insurance rates for directors and officers are six times higher in the United States than in Europe. *Id*. at 5.

individuals in Europe.[18] Furthermore, liability reform is proceeding in Europe in respects not present in the United States. For example, last year the European Commission called for its member states to adopt one of three approaches to limit the liability risks for auditors: by contract with the client, liability caps, or adoption of proportionate liability.[19] Further, an open question is whether the addition of a signature requirement in the United States could impact the willingness of partners of member firms outside the United States to audit non-U.S. companies that file reports with the U.S. Securities and Exchange Commission. In light of the absence of any experience here in the United States and given that the engagement partner signature initiative is still in the embryonic stage in the EU, the PCAOB should, at a minimum, wait until it can more thoroughly assess the impact on audit quality, if any, of the signature requirement in the EU.

If the PCAOB moves forward with a proposal related to the signature requirement, consideration must be given to how adequate protections can be put in place to safeguard against these unintended consequences. The concept release correctly points out that the requirement "should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm."[20]

3. An engagement partner signature requirement would ignore corporate governance structures and the significant reforms put in place as a result of the Sarbanes-Oxley Act.

Corporate governance structures currently in place may be circumvented by requiring the engagement partner to sign the audit report. Investors' interests are generally represented through the board of directors and the audit committee. As discussed above, under the Sarbanes-Oxley Act audit committees are directly responsible for the appointment, compensation, and oversight of the work of the independent auditor, including the engagement partner, and represent the interests of investors in this regard. It is generally inappropriate for the auditor to answer questions from individual shareholders or shareholder/investor representatives about the company or the audit, due to professional responsibilities with respect to confidentiality of client

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18 The U.S. Department of Treasury's Advisory Committee on the Auditing Profession has concluded that the serious litigation risks faced by U.S. audit firms are "real." U.S. Department of Treasury, Final Report of the Advisory Committee on the Auditing Profession ("ACAP Report"), at VIII:9 (Oct. 6, 2008), *available at* http://www.treas.gov/offices/domestic-finance/acap/docs/final-report.pdf (discussing past catastrophic litigation in the United States, as well as the collapse of Arthur Andersen).

19 *Commission Recommendation of 5/VI/2008 concerning the limitation of the civil liability of statutory auditors and audit firms* at 1–2 (2008).

20 PCAOB Release No. 2009-005, at 4 (citing ACAP Report at VII:20, recommending that any signature requirement be accompanied by measures to ensure that the requirement does not increase the liabilities or duties of an engagement partner). In addition, as recognized in the concept release, the PCAOB does not have authority to promulgate safe harbor protections, and as a result, legislation or an SEC rulemaking or both would be needed to provide such protections. *See* PCAOB Release No. 2009-005, at 13.

information and legal issues with respect to disseminating non-public information. Were a specific signature be affixed to the report, however, investor inquiries that are appropriately directed to the company may be more likely to be directed to individual auditors—who, of course, would likely not be in a position to respond—leading to unnecessary frustration on the part of investors.

4. The impact on the security and privacy of our partners and that of their families is also a significant concern.

Finally, we believe that the proposed standard could lead to significant security and privacy concerns. As part of the survey, approximately 48% of the audit partners provided candid and unprompted feedback that they would be concerned about the impact such a requirement would have on their personal security and privacy and that of their families.[21] We believe this is an important data point for the Board to consider. Creating a new requirement that leads to fears about the loss of security or personal privacy could trigger a reluctance to accept particular audit engagements and could further challenge the profession's ability to attract and retain auditors, thereby adversely affecting audit quality.

* * *

Fundamentally, we do not believe that adding the engagement partner's name to an audit report will enhance audit quality. The engagement partner signature requirement will not enhance the already strong sense of accountability held by partners, which is significantly reinforced by many layers of quality control and oversight. Nor will access to the name of the engagement partner provide useful information to the investing public. Indeed, it is likely that the requirement will introduce unwarranted, albeit unintended, costs and burdens to the audit process and to those at audit firms who participate in that process.

D&T appreciates this opportunity to provide our perspectives on this important topic. Our comments are intended to assist the PCAOB in analyzing the relevant issues and potential impacts as discussed herein. If you have any questions or would like to discuss these issues further, please contact Robert Kueppers at (212) 492-4241 or John Fogarty (203) 761-3227.

Very truly yours,

/s/ Deloitte & Touche LLP

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21 By way of example, two engagement partners responding to the survey expressed this unsolicited concern. One stated, "The [engagement partner] may become the target of unwarranted abuse from those who don't understand the purpose of an audit. This abuse may put him/her, their family and colleagues at risk of violence or otherwise, which accounting firms are not equipped to protect them from." Another similarly explained, "I would be deeply concerned about the significant threat to personal security and the security of [my] children. . . . Such a policy would lead to partners refusing certain risky clients or leav[ing] the profession due to security concerns."

cc: PCAOB
Daniel L. Goelzer, Acting Chairman
Bill Gradison, Member
Steven B. Harris, Member
Charles D. Niemeier, Member

SEC
Mary L. Schapiro, Chairman
Luis A. Aguilar, Commissioner
Kathleen L. Casey, Commissioner
Troy A. Paredes, Commissioner
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Mr. J. Gordon Seymour
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

10 September 2009

PCAOB Rulemaking Docket Matter No. 029
Concept release on requiring the engagement partner to sign the audit report

Dear Mr. Seymour:

Ernst & Young LLP (Ernst & Young) is pleased to submit comments on the Public Company Accounting Oversight Board's (PCAOB or the Board) concept release on requiring the engagement partner to sign the audit report (the Concept Release). While we support Board initiatives that are designed to improve audit quality for the users of financial statements, in our view, requiring the engagement partner to sign the audit report would not provide appreciable benefit in audit quality.

In the Concept Release, the Board postulates that an engagement partner signature requirement may lead to improved audit quality through enhanced accountability and increased transparency. Specifically, the arguments offered are that a signature requirement "<u>might</u> increase the engagement partner's sense of personal accountability to financial statement users" and "would increase transparency about who is responsible for performing the audit, which <u>could</u> provide useful information to investors for investment decisions, audit committees for retention decisions, and in turn, provide additional incentive to firms to improve the quality of all of their engagement partners." In our view, consistent with the debate in the U.S. on this issue over the last few years, the discussion provided in the Concept Release around these two hypotheses does not make a compelling case that users of the financial statements would benefit from the engagement partner signing the audit report or that there would be a resulting benefit to audit quality.

In the remainder of this letter we discuss our views that sufficient mechanisms are already in place to heighten the engagement partner's sense of personal accountability to financial statement users. We also discuss our view that added transparency about who is responsible for performing the audit will not provide meaningful information to users and could be used in an adverse and unfair way toward audit professionals. Finally, we share our concerns about the additional liability exposure that would result from this proposal.

Accountability

At a theoretical level, we agree that requiring the engagement partner to sign the audit report may in some degree increase the engagement partner's sense of accountability to financial statement users. However, at a practical level in terms of audit quality, we do not believe there will be any appreciable benefit in light of the accountability already provided through a firm's system of quality control, the exposure of the engagement partner to personal sanction and penalty as provided under SEC and PCAOB rules and regulations, potential proceedings by State boards of accountancy and the threat of private litigation. With all of these considerations in mind, our engagement partners already have a strong sense of personal accountability today when they sign an internal form at the completion of the audit authorizing the use of the firm's signature on an audit report.

The PCAOB and other regulatory bodies recognize that successful, high quality audits depend on a firm's quality control system. Rule 3400T of the PCAOB's Interim Quality Control Standards set forth minimum quality control standards for a registered public accounting firm. A firm's system of quality control is designed to provide the firm with reasonable assurance that audits performed by its personnel, including the work performed by personnel of its domestic or foreign affiliates or correspondents, are in accordance with professional standards in the United States when such standards are applicable. Moreover, through its inspection process, the PCAOB monitors whether the audit firm has appropriately implemented and complied with these professional standards.

The signing of the firm's name demonstrates the effort of the entire firm behind the audit opinion. An audit report represents the work of many individual CPAs and often involves many partners in the field, national offices and foreign affiliated firms. Public company audits are not simply the work of the engagement partner. We believe it is a mistake to impose a signature requirement suggesting a unique degree of accountability or responsibility for an individual working on a public company audit as this detracts from the concept that the firm as a whole has the responsibility to stand behind the quality of its work. We believe this is true whether an individual were to sign alone or in addition to the firm's name.

The consultative process that is at the center of our firm's system of quality control is designed to prevent any individual from making unilateral decisions around critical accounting and auditing decisions and other significant judgments that could significantly affect our firm's audit opinion. History has shown that a consultative culture and firm decision-making are key drivers of audit quality. We are concerned that an engagement partner signature requirement would send the wrong message and suggest individual responsibility and autonomy over firm responsibility and a consultative quality control system.

The Concept Release suggests that requiring the engagement partner signature on the audit report correlates with the policy requirement of the CEO or CFO signing financial statements. However, we believe this is a false analogy and that the correct analogy supports the firm's signature on the audit report. The CEO or CFO signature for financial reports is evidence that they, at the top of the company, stand behind the information that is being provided and take responsibility for the quality controls and processes that feed into that work product. Requiring the audit firm (and not the engagement partner) to sign the report does the same thing. It sends the message that the entire firm stands behind the audit report and that the firm has the necessary quality controls in place to be confident in its signature.

Requiring the engagement partner to sign the audit report may have the effect of focusing attention on information (i.e., identity of the engagement partner) that is not relevant to the user's ability to rely on the financial statements. Financial statement users primarily are interested in the quality of the financial information and their interest in audit quality is derived from this primary interest. In evaluating the quality of the financial information, users of the financial statements traditionally have focused on whether the financial statements have been subject to audit, the nature of the audit opinion that was issued and any indications of disagreements or other matters that raise concerns about the quality of the financial information. The audit opinion provides reasonable assurance that the financial information presented does not contain material misstatements. Knowing who signed the auditor's report would not change the conclusion of the report and the added signature of the engagement partner does not further inform users as to the quality of the information in the financial statements.

We believe requiring the engagement partner to sign the audit report will simply be for the sake of transparency, which we discuss below, without any appreciable benefit to audit quality.

Transparency

The identity of the engagement partner is readily known or available to the board of directors, management and regulators who, because of their respective roles as representatives of the financial statement users, are in positions to benefit from this information. Responsibility for evaluating the audit firm and the engagement partner rests with the audit committee of the board of directors. The audit committee recommends the audit firm, and through the board of directors puts the firm name before the shareholders for ratification.

In the situation of a large, widely held company, the engagement partner typically attends the annual shareholder's meeting and is available to answer appropriate questions. While this does not result in the identity of the engagement partner being readily known to all shareholders, it illustrates that the identity of the engagement partner generally is available to shareholders. However, on its own such information is vastly inadequate to form any judgments regarding the work of any individual or more importantly the work of the firm on this particular audit. We are puzzled as to how the general public might responsibly benefit from or act upon this information. While the PCAOB, as regulator, is in a position to interact with and evaluate the qualifications and work of the audit firm, including the engagement partner, and therefore have a frame of reference from which to benefit from the identification of professionals involved in the audit, the public is not.

We are concerned that third parties may begin to trade on information about engagement partners without any ability to discern any correlation with audit quality. Providing the name of the engagement partner through a report signature requirement may risk a simple "guilt-by-association" conclusion in certain circumstances. If an engagement partner is associated with a company with financial reporting difficulties (or alleged or even rumored financial reporting problems), what is the public to do with such limited information? The general public does not have access to information to allow them to make informed judgments as to the significance of the audit partner's association with the company with financial reporting difficulties, whether actual, alleged, or rumored. What if the reality is that the auditor's work helped to bring to light underlying matters that are the cause of the financial reporting difficulties? Or that notwithstanding the financial reporting issues, the auditor's work was conducted in accordance with professional auditing standards? The public is well served by the most challenging audits, audit committees and management being matched with engagement partners possessing the knowledge, experience and temperament appropriate for the circumstances. If a partner is repeatedly tasked with handling the toughest of audit engagements, the public may gain an inaccurate impression of the partner due to a perception of guilt-by-association with companies with financial reporting difficulties. As a result, the willingness of audit partners to serve as the engagement partners for certain audit clients might wane.

Because third parties will have no further insight beyond an individual's identity into the qualifications, track records or actual work of individual partners, they therefore are left to infer distinctions without basis. We believe the public and investors appropriately look to the PCAOB and the corporate governance structure of the board of directors and its audit committee to represent their interests in monitoring the work of audit firms and individual auditors.

Liability of engagement partners

The Concept Release notes certain potential liability concerns with requiring the engagement partner to sign the audit report and poses a series of questions about liability in private litigation. For the reasons discussed below, we think requiring the engagement partner to sign the audit report would have an adverse effect on liability and on accounting firm litigation.

In our experience, plaintiffs typically do not name individual partners as defendants in accounting malpractice or accounting fraud lawsuits. Generally, only the firm itself is sued. This is likely because the firm provides the "deep pocket" for recovery of damages; the individual partner is not likely to have personal assets that are substantial enough to warrant pursuit. But it might also be because, in lawsuits under Section 10(b) and Rule 10b-5 of the Securities Exchange Act, it is difficult to establish that the individual has "made" a statement under the post-Central Bank case law in most judicial circuits. As the Concept Release notes, the secondary liability argument based on Central Bank "of course, would not be available if the engagement partner signed the audit report."

The absence of the Central Bank legal impediment might lead to additional claims being filed against individual partners. But we do not think that this would be the primary reason that plaintiffs might add individual partners as defendants. Rather, we think it possible that some law firms that routinely practice in this area might simply conclude that, with a partner's signature on the auditor's report, it would be difficult to explain to a jury why the partner is not named as a defendant - the reasoning might go that since he or she signed the opinion then of course he or she should be sued together with the accounting firm. Indeed, the Concept Release analogizes the signature requirement to the CEO/CFO certification requirement imposed by Section 302 of the

Sarbanes-Oxley Act; at least in part as a result of that requirement, CEOs and CFOs are almost always named as defendants together with their corporate employer.

We have no way of knowing for certain whether this might be the reasoning of some plaintiffs' law firms, but many changes in the laws or regulations have affected litigation in ways that are impossible to predict. For example, the Private Securities Litigation Reform Act's lead plaintiff provision, section 21D of the Exchange Act, has significantly changed the way securities litigation is conducted today, in ways that were not foreseen. Moreover, uncertainty as to the effect on litigation also exists because accounting firms often are sued by bankruptcy trustees, litigation trustees, creditors, and others bringing negligence, negligent misrepresentation, and fraud claims under applicable state laws. These lawsuits have many permutations, but we think, based on having experienced scores of such lawsuits over the past couple of decades, that individual partners would likely be named in many of these lawsuits if the PCAOB were to require the engagement partner to sign the audit report.

What would be the effect of naming the individual partner as a defendant? The personal effect would be significant - merely being sued for fraud or negligence could lead to the loss of clients for the individual partner, emotional and personal financial difficulties, and so on. It may mean that the accounting firm defendant would need to retain separate counsel for the individual partner, thereby complicating the litigation and adding substantially to defense costs. It may well mean that, because of these consequences, the accounting firm would opt more readily for settlement rather than for prolonged litigation (indeed, this may be a reason why the plaintiffs' bar, over the course of time, would conclude that adding the individual partner as a defendant is an effective litigation strategy). And it could, of course, result in a verdict, and the award of damages, that is adverse to the partner.

Absent evidence - certainly, stronger evidence than is set forth in the PCAOB's Concept Release - that requiring the partner to sign the audit report would improve audit quality, we recommend against moving forward with this proposal.

Summary

As discussed previously, it is our view that the engagement partner's signature would dilute if not put at risk the benefits gained from the collective, firm signature. We believe that the engagement partner's strong sense of personal accountability is already well in place and supported by a firm's system of quality control and PCAOB oversight. It therefore is our view that requiring the engagement partner to sign the audit report will not enhance his or her accountability but rather potentially could have an adverse effect on audit quality. It further is our view that the benefits of transparency with regard to the identity of the engagement partner that might be afforded by requiring the engagement partner to sign the audit report are significantly overstated. The identity of the engagement partner is readily known to members of the board of directors and in particular to the audit committee that, on behalf of the shareholders, is vested with the responsibility of evaluating the audit firm, including the engagement partner, and proposing the firm for ratification by the shareholders. Given the limited nature of information that would be afforded by such a requirement, we believe the general public would be at risk of reaching unjust and inappropriate conclusions regarding the quality of work of an individual engagement partner, which is already subject to not only the firms' practice monitoring programs but also the PCAOB's inspection process. We also believe that the potential increased liability risks associated with the engagement partner signing the audit report are not justified by the arguments for enhanced accountability and transparency.

* * * * *

We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff.

Sincerely,

Ernst + Young LLP

August 14, 2009

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 29
Concept Release on Requiring the Engagement Partner to Sign the Audit Report
July 28, 2009

Dear Board Members,

I am submitting my comments to you regarding the above referenced Rulemaking Docket Matter. These are my personal comments and do not necessarily reflect those of my employer. You specifically asked respondents to answer sixteen (16) questions.

<u>Reasons for a Signature Requirement</u>

1. **Would requiring the engagement partner to sign the audit report enhance audit quality and investor protection?**

    The engagement partner already has to sign off on the files in order for the report to be issued. If this person does not already possess a strict sense of duty and understand the liability, then he or she is in the wrong position and ought not be an engagement partner in a registered accounting firm.

    Moreover, if the engagement partner is inclined towards deception, he or she can sign every page of the report and financial statements, and they would be just as fraudulent. If our colleagues in Europe feel this is helpful, let them add the requirement. The Board and the Securities and Exchange Commission (SEC) can make reports far more transparent, *i.e.* understandable, with laws and regulations that do not require a signature.

2. **Would such a requirement improve the engagement partner's focus on his or her existing responsibilities? The Board is particularly interested in any empirical data or other research that commentators can provide.**

    As I mention above, those who are inclined to be deceptive will sign anything to receive the fruits of the fraud and to prevent their misdeeds from being discovered.

3. **Would disclosure of the engagement partner's name in the report serve the same purpose as a signature requirement, or is the act of signing itself important to promote accountability?**

I should hope that the Board and SEC have improved that sense of accountability in recent years without this requirement.

The issue I have with releasing the name is that we live in a very different world. Suppose Robert "Bob" Anderson signs under the registered accounting firm's name. People recognize the firm Father Knowles & Best as a responsible firm with a list of well known clients. For some reason unknown to either Bob or the client, the client's stock dips. One investor decides to look up Bob on the Internet. Before long this investor has set up a site for other investors to vent their frustration. The site may include Bob's address.

The argument can be made that the client's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) face this backlash already. They are *directly* responsible for the company. Bob must rely on his staff and the integrity of client personnel. In the example above, market pressures beyond anyone's control may weaken the stock price.

The real question the Board must ask is does adding Bob's signature to the report increase the *integrity* of the financial statements? Simply put, would the signature of the engagement partner under Arthur Andersen's logo have prevented Enron from issuing bogus statements?

4. Would increased transparency about the identity of the engagement partner be useful to investors, audit committees, and others?

The Board suggests that audit committees might seek out certain partners, resulting in "competition [that] could lead to an improvement in audit quality." Taking my example above, let us stipulate that Bob has certain expertise that makes him attractive to audit committees of companies in a certain industry. Every committee making contact with Father, Knowles & Best requests Bob as the engagement partner. Bob's time is limited. Therefore, the price of the audit goes *up*.

Furthermore, if I am an investor in a company Bob's firm audits and know that Bob is well regarded, what conclusion should I draw if someone other than Bob is the engagement partner? Perhaps the price of the stock will drop as informed investors see that Bob is not signing the report. Let us not forget the Board requirements do require partner rotation. Is it the Board's intention to create engagement partners who are akin to professional athletes – seeking engagements that will provide a larger pay day; even "free agency"? By that I mean that Bob may be courted by other registered accounting firms to enhance their book of clients.

5. Would such information allow users of audit reports to better evaluate or predict the quality of a particular audit? Could increased transparency lead to inaccurate conclusions about audit quality under some circumstances? We are particularly interested in an empirical data or other research that commenters can provide.

The Board is essentially asking if audit report users will begin to discuss financial statements in the same way sports fans discuss coaches and players. Imagine a comment like this, "Bob Anderson signed the report for ABC, Inc. last year, and everyone knows that Bob only signs the best reports." Another investor may chime in with, "True. But Bob is *not* signing this year. The audit firm said that Bob was rotating off the engagement, but I heard rumors that Bob was moving to Cleaver, Haskell and Cleaver. There will be a new engagement partner no matter what; a partner who is untested. I may dump ABC now." A third party to the conversation says, "Bob is high quality – do we all agree? Even if he takes ABC with him to another firm, Bob is going to command more money, and the insurance company is going to want a higher premium because Bob's exposure is increasing dramatically."

I will grant the Board that this is far from empirical data or research; however, it does seem to logically follow from the Board's question.

6. **Are there potential unintended consequences of requiring the engagement partner to sign the audit report that the Board should be aware of?**

   Please see my responses to questions three, four and five above; see also the second paragraph of my response to question seven below.

7. **The EU's Eighth Directive requires a natural person to sign the audit report, but provides that '[i]n exceptional circumstances, Member States may provide that this signature does not need to be disclosed to the public if such disclosure could lead to imminent, significant threat to the personal security of any person." If the Board adopts an engagement partner signature requirement, is a similar exception necessary? If so, under what circumstances should it be available?**

   I mention in my response to question three above that any investor might seek to locate a partner when the name is known. How would a firm, partner, or issuer recognize an "imminent, significant threat" *before* the time of issuance?

   The concurrent issue with allowing an exception is that investors will notice the missing signature and may draw the conclusion that the report and financial statements are defective in some manner. After all, the Board would have to permit language as to why the signature is missing. For example, "Under the exception paragraph of Rule ___, the engagement partner's name and signature is withheld." Who wants to be an engagement partner if it endangers a life?

8. **What effect, if any, would a signature requirement have on an engagement partner's potential liability in private litigation? Would it lead to an unwarranted increase in private liability? Would it affect an engagement partner's potential liability under provisions of the federal securities laws other than Section 10(b) of the Securities Exchange Act, such as Section 11 of the Securities Act of 1933? Would it affect an engagement partner's potential liability under state law?**

I am not an attorney, so it is difficult for me to prognosticate potential court actions. One and perhaps only, benefit to having an engagement partner's signature on the report is it may shield *other* partners from liability. Had the partner working on Enron signed the report, the firm Arthur Andersen may still exist.

9. Are there steps the Board could or should take to mitigate the likelihood of increasing an engagement partner's potential liability in private litigation?

The Board appears to be loath to increase liability, while indicating that requiring a signature will somehow make partners more aware of their responsibility; simultaneously somehow making reports and financial statements more transparent. Increasing liability will have a chilling effect on registered accounting firms. Many partners may choose to retire or move to private companies (as I alluded to at the end of my response to question seven above). This will reduce the supply of auditing services and increase the costs. Therefore, I understand why the Board seeks to limit liability. The public, however, may wonder if there is a benefit to shareholders if restrictions are placed on legal remedies.

10. Some commenters on the ACAP Report who expressed concern about liability suggested that a safe harbor provision accompany any signature requirement. While the Board has no authority to create a safe harbor from private liability, it could, for example, undertake to define the engagement partner's responsibilities more clearly in the PCAOB standards. Would such a standard-setting project be appropriate?

Anything the Board can do to clarify the PCAOB standards is always welcome. The shortcoming with standards is that standards do not have the weight of law or regulations. The SEC in concert with the Board ought to work with Congress to create a safe harbor regardless of whether the signature requirement passes muster.

<u>Potential Amendments to PCAOB Standards</u>

11. If the Board adopts an engagement partner signature requirement, would other PCAOB standards, outside AU sec. 508 and Auditing Standard No. 5, need to be amended?

No comment.

12. Should the Board only require the engagement partner's signature as it relates to the current year's audit? If so, how should the Board do so? For example, should firms be permitted to add an explanatory paragraph in the report that states the engagement partner's signature relates only to the current year?

If the Board does adopt this requirement, and I believe the Board ought *not* do so, then I would take another approach. If the engagement partner has not changed, then the engagement partner may sign covering all years presented. If the engagement partner has changed, then each partner signs for years presented when he or she was the engagement partner. Any other language in the report limiting the engagement partner's exposure may be viewed as dodging responsibility.

13. If a signature requirement is adopted, should a principal auditor that makes reference to another auditor also be required to make reference to the other engagement partner? Would an engagement partner at the principal auditor be less willing to assume responsibility for work performed by another firm under AU sec. 543?

If I were to sign a report as an engagement partner where another audit firm performed work, I would certainly seek to limit my responsibility. Nothing excuses me from due diligence in reviewing the other firm's work. Nonetheless, I would mention the firm, the "engagement partner" for the work, and want that engagement partner to sign a special report on their limited engagement.

14. Auditors are not required to issue a report on a review of interim financial information, though AU sec. 722, *Interim Financial Information*, imposes requirements on the form of such a report in the event one is issued. Should the engagement partner be required to sign a report on interim financial information if the firm issues one?

If the Board adopts a signature requirement, then for the sake of consistency, the requirement ought to carry to interim reports.

15. Would requiring the engagement partner to sign the audit report make other changes to the standard audit report necessary?

As discussed above, if an engagement partner is limiting his or her responsibility, then such language has to be available. It can also be argued that phrasing may need to be changed. For example, the first sentence generally starts with, "We have audited the accompanying…" To incorporate a signature requirement, it may be better to start the report with, "My firm has audited…" In fact, wherever "we" occurs, it could change to "my firm". The opinion paragraph might start like this: "In my opinion and that of my firm…" After all, we are pointing out that one person – the engagement partner – is putting his or her mark on the report. The firm is no longer speaking collectively. It is the partner's voice speaking in the report.

16. If the Board adopts a signature requirement, should it specify a form of the engagement partner's signature? For example, should the engagement partner sign on behalf of the firm and then "by" the engagement partner?

If the Board does adopt the requirement, then the signature ought to look something like this –

Robert Anderson

Father, Knowles & Best LLC
Anytown, Anystate

The stated goal for the signature requirement is to emphasize the engagement partner's accountability and make reports and statements more transparent. It is my belief that one who becomes an engagement partner better understand this whether he or she has to sign the report *personally* or not. I do not believe the requirement meets the stated goals.

Ultimately, I ask the Board to remember the questions I posed above. First, if the engagement partner at Arthur Andersen had to personally sign the Enron report, would that change the financial statements? Second, does adding the engagement partner's signature add *integrity* to the financial statements?

Respectfully submitted,
Frank Gorrell, MSA, CPA

Frank Gorrell, MSA, CPA

COLES COLLEGE OF BUSINESS KENNESAW STATE UNIVERSITY | THE UNIVERSITY of TENNESSEE KNOXVILLE | THE UNIVERSITY OF ALABAMA BUSINESS

August 14, 2009

Mr. J. Gordon Seymour
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket No. 029 – Engagement Partner Signature on the Audit Report

Dear Mr. Seymour:

We are members of the Auditing Section of the American Accounting Association, and are writing to commend the PCAOB for formally considering requiring the engagement partner's signature on the audit report. As you are aware, the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession recommended that the PCAOB undertake a standard-setting initiative mandating the engagement partner's signature on the auditor's report. We believe that such a requirement is likely to have a number of positive effects, including a change in partner behavior that would positively influence audit quality, and an increase in transparency for audit and financial statement users. We are not advocating any specific requirements of the partner sign-off (e.g., which partners should be required to provide signatures); rather, we want to highlight why having one or more individuals provide a personal signature on the audit report has strong potential merit (addressing Questions 1-3 of the July 28th Concept Release). Below we describe the basis for our belief, including references to relevant research. This letter represents our views, which are not necessarily the views of our universities, the American Accounting Association, or the Auditing Section of the American Accounting Association.

While the academic literature does not directly address the issue of partner sign-off, research (e.g., DeZoort, Harrison, and Taylor 2006; Johnson and Kaplan 1991; Kennedy 1993) shows that accountability (which would likely result from having to provide a personal signature on the audit report) reduces auditors' biases in information processing and enhances auditors' consensus and effort. We believe that there is a persuasive body of evidence suggesting accountability effects are robust across a variety of groups representing different ages, professional interests, and hierarchical levels. Further, the psychology literature (Schlenker, Britt, Pennington, Murphy, and Doherty 1994) highlights that individual sense of responsibility for performance "flows" from accountability. We also find it very interesting that a recent research study (Cohen, Krishnamoorthy, and Wright 2009) reports that 68% of practicing auditors interviewed believe that the SOX Section 302 requirements for CEO and CFO certification have had a positive effect on the integrity of financial reporting. Reasoning would suggest that certification by an audit partner, in the form of a personal signature, would have a similar positive effect on the performance of the audit. We also refer you to Carcello, Bedard, and Hermanson (2009), who expressed strong support for audit partner signatures on the audit report.

We acknowledge that the current research does not definitively settle the issue of partner sign-off, and we recognize that researchers may learn about other effects of partner sign-off with additional research. However, we believe that currently there is a strong basis for anticipating that partners, and hence audit quality, would be affected by the accountability pressure resulting from providing a personal signature.

Thank you for your work on this very important initiative and your continued focus on the public interest.

Sincerely,

Audrey Gramling, Past President, Auditing Section of the American Accounting Association, Kennesaw State University

Joseph Carcello, Ernst & Young Professor and Director of Research – Corporate Governance Center, University of Tennessee

Todd DeZoort, Professor of Accounting and Accounting Advisory Board Fellow, The University of Alabama

Dana Hermanson, Dinos Eminent Scholar Chair and Professor of Accounting, Kennesaw State University

References:

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Grant Thornton

September 11, 2009

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Re: PCAOB Rulemaking Docket Matter No. 029, *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*

Dear Board Members and Staff:

We appreciate the opportunity to comment on the *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* ("Concept Release"). We support the practice of issuing a concept release, such as this one, seeking input on high-level issues prior to the issuance of an exposure draft of a proposed standard. We expect you will find the input you receive useful, and encourage you to continue the practice going forward.

We support the goal of increasing accountability and transparency; however, we do not believe requiring the engagement partner to sign the audit report will accomplish that goal. We believe that a requirement to sign the audit report individually will have no effect on the partner's sense of accountability. Partners are held accountable by their own professionalism, supplemented by mechanisms that are in place that allow third parties to hold them accountable. For those partners, it is impossible to be "more" accountable. To the extent that there may be partners who do not feel this deep sense of accountability, it is hard to imagine that the requirement to sign the audit report will influence them if all the mechanisms that are currently in place to hold partners accountable have failed to do so.

With respect to transparency, we believe that a requirement for the engagement partner to sign the audit report would actually reduce transparency in that it obfuscates how an audit is performed. To imply that an individual is solely responsible for performing the audit is misleading. Furthermore, we believe that this requirement may signal to the markets that there has been a fundamental shift in the responsibilities of the audit firm and the engagement partner, which is not the case.

We also believe pursuing this project at this time will distract the Board's resources from more meaningful initiatives to enhance market confidence in audit quality, and the Board risks promulgating a new standard with unproven benefits and unintended consequences.

Partner's sense of accountability

1. Would requiring the engagement partner to sign the audit report enhance audit quality and investor protection?

2. Would such a requirement improve the engagement partner's focus on his or her existing responsibilities? The Board is particularly interested in any empirical data or other research that commenters can provide.

3. Would disclosure of the engagement partner's name in the report serve the same purpose as a signature requirement, or is the act of signing itself important to promote accountability?

We believe that a requirement to sign the audit report individually will have no effect on investor protection, audit quality or the partner's sense of accountability. Partners are held accountable by their own professionalism, supplemented by mechanisms that are in place that allow third parties to hold them accountable. Such mechanisms include a firm's quality control policies and procedures, such as engagement quality review, a firm's internal inspection process, and partner compensation programs. Other mechanisms include peer review programs and the PCAOB inspection process. Furthermore, the audit committees and other regulators oversee the auditor. Finally, partners have a significant portion of their net worth invested in the firms in which they are partners. A single audit failure can take down a firm, resulting in a significant personal loss to the engagement partner, and all of his or her partners. We do not believe individually signing a report will promote greater accountability.

Furthermore, we are not aware of any studies that have been done to prove or disprove this presumption that individually signing a report drives greater accountability or whether any such requirement impacts investors' perceptions.

We are aware that research has shown that, at the staff-level, personnel will make more conservative materiality assessments and design more testing procedures when they realize that higher-level personnel on the engagement team will know who has performed the procedures.[1] However, we have quality assurance policies and procedures that recognize this characteristic of human behavior by requiring the documentation and review of who has performed which procedures, up through the partner and engagement quality review level. These policies and procedures, and how they are implemented, are reviewed by our internal inspection program, peer review, and PCAOB inspection. We reward and dismiss partners based on the quality of their work. These policies and procedures impose an appropriate level of accountability on all the participants on the audit team, including the engagement partner.

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[1] See DeZoort et al., "Accountability and auditors' materiality judgments: The effects of differential pressure strength," Accounting, Organizations and Society 31 (2006) 373–390.

Transparency

4. Would increased transparency about the identity of the engagement partner be useful to investors, audit committees, and others?

5. Would such information allow users of audit reports to better evaluate or predict the quality of a particular audit? Could increased transparency lead to inaccurate conclusions about audit quality under some circumstances? We are particularly interested in any empirical data or other research that commenters can provide.

The signature of the lead partner on an audit report has been presented as an effort to increase transparency. Increasing transparency implies an underlying process becomes apparent. However, we believe that the signature of the engagement partner on an audit report actually obscures the underlying audit process, which involves firm-level processes, including the firm's methodology, consultation requirements, review processes, and other audit and quality control policies and procedures. The engagement partner is responsible for oversight of the audit, but often specialists and national office partners assume significant responsibilities related to certain technical matters or complex areas. The confidence in the audit opinion is based on the quality of the firm's policies and procedures, not just the abilities of the individual partner. It is for this reason that the partner signs the firm's name on the audit report, not his or her own.

We are very concerned that requiring a partner to individually sign the report will lead to inaccurate conclusions about audit quality under some circumstances. The temptation to rank engagement partners by a simple statistic like number of restatements is too great. However, it must be remembered that the number of restatements is not a pure measure of the quality of a particular partner's body of work. There are many independent and dependent variables that affect any simple statistic of audit quality, only one of which is the identity of the engagement partner.

Finally, we believe that the addition of a requirement for the engagement partner to sign the audit report individually will signal to the markets a fundamental shift in the responsibilities between the audit firm and the engagement partner, which clearly has not occurred.

Unintended consequences

6. Are there potential unintended consequences of requiring the engagement partner to sign the audit report that the Board should be aware of?

Potential unintended consequences include:

- Shareholders may believe it is appropriate to contact the engagement partner directly to ask questions about the audit, the company's financial statements, or other matters. This would put both auditors and shareholders in a frustrating position, because, of course, the auditor cannot answer such questions due to confidentiality and other legal requirements. Auditors are accountable to the shareholders through the audit committee and the board of directors. This governance structure allows decisions to be made by people with an appropriate level of understanding of the company. We believe that shareholders, operating outside this governance structure, could add confusion, cost, and frustration to a process that already contains mechanisms in place to hold auditors appropriately accountable to shareholders.

- An increase in real or perceived personal risk and responsibility by engagement partners will result in increased demand for prescriptive auditing and accounting standards, with a resulting decline in the use of professional judgment. Furthermore, costs in general could increase as auditors perform unnecessary procedures, or engage in unnecessary consultations in order to mitigate such perceived increase in personal risk.

- Engagement partners and their families could be subject to unwarranted and unwelcome communications from shareholders who are unhappy with a particular company's performance in matters that are wholly unrelated to the completeness and accuracy of the financial statements.

- More highly qualified partners refusing to serve as the engagement partner on more challenging audits because of real or perceived increased legal liability risks or personal security risks associated with particular clients. Furthermore, some auditors may avoid performing riskier audits lest the increased risk of audit failure negatively influences their professional reputations.

- In the event that a question arises about the sufficiency of an audit of a high-profile company, even before the merits of such a question are validated or debunked, the publication of the engagement partner's name could generate indefensible press coverage that will likely negatively affect his or her reputation even if the audit is later determined to be sufficient.

7. The EU's Eighth Directive requires a natural person to sign the audit report, but provides that "[i]n exceptional circumstances, Member States may provide that this signature does not need to be disclosed to the public if such disclosure could lead to an imminent, significant threat to the personal security of any person." If the Board adopts an engagement partner signature requirement, is a similar exception necessary? If so, under what circumstances should it be available?

We believe that, if the Board adopts an engagement partner signature requirement, an exemption is required for those situations where the engagement partner feels that disclosure of the identity of the engagement partner could lead to an imminent, significant threat to the personal security of any person. The exemption should be available at the discretion of the partner and/or the firm. The need for appropriate guidance for a firm or a partner to use such an exemption would be critical to avoid unnecessary questioning of the professional judgment that would be necessary when using the exemption. However, guidance of this nature would be quite complex. Given that we do not believe a partner individually signing a report enhances audit quality, our belief that this standard is unnecessary is reinforced.

Legal liability concerns

8. What effect, if any, would a signature requirement have on an engagement partner's potential liability in private litigation? Would it lead to an unwarranted increase in private liability? Would it affect an engagement partner's potential liability under provisions of the federal securities laws other than Section 10(b) of the Securities Exchange Act, such as Section 11 of the Securities Act of 1933? Would it affect an engagement partner's potential liability under state law?

We believe that a signature requirement may cast doubt on an engagement partner's ability to raise important defenses to private claims under Section 10(b) of the Securities Exchange Act of 1934. Therefore, we believe that a signature requirement would likely increase the risk of liability to a partner. We therefore strongly encourage the PCAOB, to the extent it determines to proceed with such a requirement, to perform a thorough analysis on the potential impact an engagement partner's signature may have on litigation.

We expect that a signature requirement could create similar ambiguities under other federal statutes and state laws; the only bounds of the resulting potential liability to engagement partners is the creativity of plaintiffs. Even if resulting claims are ultimately defeated, the perception of increased personal liability of engagement partners will result in additional costs to defend against those claims, and insurance costs.

9. Are there steps the Board could or should take to mitigate the likelihood of increasing an engagement partner's potential liability in private litigation?

10. Some commenters on the ACAP Report who expressed concern about liability suggested that a safe harbor provision accompany any signature requirement. While the Board has no authority to create a safe harbor from private liability, it could, for example, undertake to define the engagement partner's responsibilities more clearly in PCAOB standards. Would such a standard-setting project be appropriate?

In light of the potential for increased litigation against individual engagement partners, we do not believe the Board should implement the signature requirement as long as the Board has no authority to create a safe harbor provision. However, if the Board chooses to go forward with the signature requirement and increased liability of an engagement partner is not intended, the proposed rule should so explicitly state. Further, if an individual signature is not intended to change the liability for the firm as a whole, then the proposed rule should also explicitly state this.

Effects on other standards

Overall, we recommend making as few changes to the other standards as possible. Additional changes, particularly to the audit report, imply that the partner's signature has a greater meaning than it is possible for it to have.

11. If the Board adopts an engagement partner signature requirement, would other PCAOB standards, outside of AU sec. 508 and Auditing Standard No. 5, need to be amended?

We do not recommend making changes to any of the other PCAOB standards.

12. Should the Board only require the engagement partner's signature as it related to the current year's audit? If so, how should the Board do so? For example, should firms be permitted to add an explanatory paragraph in the report that states that the engagement partner's signature related only to the current year?

Unless there has been a change in engagement partner, we do not recommend permitting the firms to add an explanatory paragraph in the report that states that the engagement partner's signature related only to the current year. Such a statement implies that there is a difference in the balance of responsibility between the firm and the partner from year-to-year. In fact, we think that the audit report is equally the firm's responsibility in both years.

13. If a signature requirement is adopted, should a principal auditor that makes reference to another auditor also be required to make reference to the other engagement partner? Would an engagement partner at the principal auditor be less willing to assume responsibility for work performed by another firm under AU sec. 543?

Current standards allow the other auditor to be named, but only with his or her express permission and providing that the other auditor's report is presented together with that of the principal auditor. Assuming that this requirement is maintained, it is unnecessary for the principal auditor to make reference to the other engagement partner, as the other auditor's report, signed by the other engagement partner, will be attached.

14. Auditors are not required to issue a report on a review of interim financial information, though AU sec. 722, *Interim Financial Information*, imposes requirements on the form of such a report in the event one is issued. Should the engagement partner be required to sign a report on interim financial information if the firm issues one?

For all of the reasons we do not believe the engagement partner should be required to sign the audit report, we also do not believe the engagement partner should be required to sign a report on interim financial information if the firm issues one.

15. Would requiring the engagement partner to sign the audit report make other changes to the standard audit report necessary?

We discourage the PCAOB from making any additional changes to the audit report as such changes might be read as attaching more importance to the auditor's signature than is warranted. Any changes in the audit report should be considered carefully and in coordination with other standards setters to avoid the confusion that may be associated with several styles of audit report in the public domain.

16. If the Board adopts a signature requirement, should it specify a form of the engagement partner's signature? For example, should the engagement partner sign on behalf of the firm and then "by" the engagement partner?

We believe that the firm's signature should be the only one on the audit report; however, should the Board decide to impose a requirement for the engagement partner to sign the audit report, then both signatures should be on the report in such a way as to make clear that the firm is responsible for the audit.

We would be pleased to discuss our comments and recommendations with you. If you have any questions, please contact Mr. John L. Archambault, National Managing Partner of Professional Standards, at (312) 602-8701.

Sincerely,

Grant Thornton LLP

HEIN & ASSOCIATES LLP
Certified Public Accountants and Advisors

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SEP 1 1 2009

September 10, 2009

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: Request for Public Comment: *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* – PCAOB Rulemaking Docket Matter No. 029

Dear Office of the Secretary:

HEIN** & ASSOCIATES LLP* ("HEIN***") is a regional CPA firm with offices in Denver, Houston, Dallas and Southern California. Our Firm has consistently ranked, based on revenues, as one of the 100 largest firms in the United States, and in 2008, we had over $50,000,000 in net revenue. We audit approximately 65 public companies, including many accelerated filers. Revenues from our public company practice represent approximately 35% of our net revenue. As a result of our public company practice, we are a member firm of the Center for Audit Quality ("Center") and serve on its Professional Practice Executive Committee. Practically speaking, we believe we represent a smaller firm performing public company audits and fully appreciate the "barriers" that deter smaller firms from performing audits of public companies.

HEIN expresses our appreciation to the PCAOB and its Board for your effort, time and dedication to improving the auditing standards.

We can understand why, on the surface, some might believe that requiring the individual audit partner to sign the audit report might enhance the audit partner's sense of accountability to users of the financial statements and result in greater exercise of care in performing the audit. However, such a requirement would be contradictory to our audit culture and is based on assumptions that are not true. An audit is performed by more than the individual partner. We believe that focusing on the individual audit partner would be a disservice, because it tries to ascribe more responsibility to the partner in an apparent attempt to increase his or her personal risk, based on the unproven assumption it will increase overall audit quality. Also, a successful audit is based on the quality control, training, experience and expertise of the auditing firm as a whole. The engagement partner is already individually accountable to the PCAOB, SEC, state boards, as well as to the firm and his or her partners, and will generally be named in litigation. Having the partner sign his or her name does not add any real individual accountability and would most likely result in unintended consequences. These include having to deal with inquiries from stakeholders that are more appropriately addressed to management, which could lead to an even greater "expectation gap" as to the auditor's role.

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We also believe disgruntled shareholders may call and even possibly come to the audit partner's home. Audit partners would undoubtedly delist their phone numbers and avoid any other publication of their personal information. This would create an undue burden on their families, which is simply not fair. Furthermore, we believe many qualified audit professionals will choose not to be partners that sign audit reports, so we may face the very real possibility of a talent drain within the profession. This will ultimately impact the quality of our audits. Finally, we have little doubt that this requirement would further increase the barriers for smaller firms from performing audits of public companies and thereby further reduce future competition in the marketplace.

Thank you for considering our comments on a matter about which we feel very strongly. If you should request any additional information, please do not hesitate to contact Bill Yeates, our National Director of Audit and Accounting.

Hein & Associates LLP

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September 11, 2009

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Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 029, Concept Release on Requiring the Engagement Partner to Sign the Audit Report

Dear Mr. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2009-005 that includes the Concept Release on Requiring the Engagement Partner to Sign the Audit Report (the Concept Release).

We would like to take this opportunity to formally recognize the effort of the PCAOB and its staff in development of the Concept Release. We believe that the use of Concept Releases to solicit input on proposed standards or revisions to existing standards is a worthwhile step in the standard setting process, and we encourage the PCAOB to continue to use this approach in the future.

In the United States, audit reports on public company financial statements are signed in the name of the registered public accounting firm taking responsibility for the audit. The Concept Release seeks input on whether the partner who has final responsibility for the audit (we refer to this individual as the engagement partner) also should sign the auditors' report in his/her name.

A basic premise of the Concept Release is that requiring an engagement partner also to sign the auditors' report in his/her own name could improve audit quality through a) increasing the engagement partner's sense of accountability to financial statement users, which would lead to exercising greater care in performing the audit, and b) increasing transparency, which would provide useful information to users as to who is responsible for performing the audit.

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In the remainder of this letter, we address the issues of accountability and transparency, as well as other potential unintended consequences that may arise, as it relates to the requirement for the engagement partner to sign the auditors' report in his/her own name.

Accountability and the Exercise of Greater Care

Interaction Between a Firm's System of Quality Control and the Role of the Engagement Partner

The PCAOB has set forth minimum quality control standards that must be complied with, in order to provide the firm with reasonable assurance that its audit engagements are performed in accordance with professional standards.[1] As noted in paragraph 7 of QC Section 20, the "quality control policies and procedures applicable to a firm's accounting and auditing practice should encompass the following elements: a) Independence, Integrity and Objectivity; b) Personnel Management; c) Acceptance and Continuance of Clients and Engagements; d) Engagement Performance; and e) Monitoring." These elements influence or impact, either directly or indirectly, almost all aspects of an audit, and the firm has overall responsibility for such elements. Although the engagement partner has primary responsibility for the conduct of the audit, he/she operates within the framework of the firm's system of quality control, in order to ensure that the audit is conducted in accordance with professional standards. Since the firm is responsible for the establishment and oversight of its system of quality control, we believe the firm's signature on the auditors' report best demonstrates the firm's overall responsibility, and accountability, to the users of the financial statements. We are concerned that requiring the engagement partner also to sign the auditors' report in his/her individual name may create confusion in the marketplace, since the PCAOB's quality control standards place accountability for the firm's system of quality control on the firm.

Accountability to Constituents

An engagement partner is accountable to various constituents, including capital markets participants in general, audit committees of the firm's audit clients, various regulators (including the PCAOB, the Securities and Exchange Commission (SEC), state boards of accountancy and others) and the firm and its partners. We believe that engagement partners currently possess a deep understanding of this accountability. As discussed further below, engagement partners have direct contact on a regular basis with PCAOB

[1] See PCAOB Interim Quality Control Standards, QC Sections 20 – 40.

and internal inspectors, share information with each other about their experiences, and currently sign the auditors' report on behalf of the firm with a complete understanding of the potentially significant consequences of failing to perform audits with integrity and in accordance with professional standards. We therefore do not believe that a requirement for the engagement partner also to sign the auditors' report in his/her own name, as described in the Concept Release, would enhance the engagement partner's sense of personal accountability.

- Accountability to Capital Markets Stakeholders

The engagement partner currently is accountable to capital markets stakeholders, as evidenced by the engagement partner's responsibility to plan and perform his/her work with due professional care. Due professional care imposes a responsibility upon each professional within the firm to observe the professional standards of the PCAOB.[2]

- Accountability to Audit Committees

The primary responsibility for the appointment, compensation and oversight of an issuer's auditing firm rests with the company's audit committee, pursuant to provisions of the Sarbanes-Oxley Act of 2002 (the Act). This responsibility establishes accountability to the audit committee by the engagement partner. The regular communications that an engagement partner has with an audit committee throughout the year help to ensure that the audit committee has the appropriate context with which to hold the engagement partner accountable for fulfilling his/her responsibilities.

- Accountability to Regulators

Individual engagement partners are accountable, with respect to their performance on audit engagements, to various regulators. The Act requires that the PCAOB perform periodic inspections of registered public accounting firms. As part of the inspection process, the PCAOB selects and inspects individual engagements and evaluates the quality control system of the firm. An adverse finding from a PCAOB inspection of an individual engagement will be an important consideration in the annual performance evaluation process for that engagement partner. Other negative consequences to the engagement partner, such as monetary penalties, censure, or the suspension or revocation of one's CPA license, also could arise from adverse findings by regulators.

[2] See PCAOB Interim Standards, AU Section 230, "Due Professional Care in the Performance of Work."

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- Accountability to the Firm and Fellow Partners

Lastly, as an owner in the firm, an engagement partner is keenly aware that conducting an audit that subsequently is determined to not be in accordance with professional standards exposes the engagement partner, his/her fellow partners and the firm to potentially significant adverse consequences. These consequences range from those whose impact is felt at a very personal level to those that are detrimental to the reputational and financial well-being of the firm. This sense of accountability is fundamental to an engagement partner's disposition of his/her professional responsibilities, and the engagement partner currently acknowledges that he/she has fulfilled such responsibilities through the signing of various internal documents.

Analogy to Section 302 Certifications

As noted above, the proposal in the Concept Release is premised, in part, on the notion that requiring the engagement partner to sign the auditors' report in his/her own name will result in greater care and diligence on the part of the engagement partner, and an analogy to Section 302 of the Act has been put forth by some to support this view. Section 302 requires the chief executive officer (CEO) and chief financial officer (CFO) to certify in each annual or quarterly report that, based on the officer's knowledge, the report does not contain any untrue statement of a material fact and that the company's financial statements are fairly presented. This provision of the Act was intended to clarify management's responsibility for information included in periodic reports filed with the SEC. We believe that both the underlying premise and the analogy to Section 302 are flawed.

We believe that compliance with Section 302, in certain instances, raised management's level of awareness relative to its financial statement responsibilities. In addition, the Section 302 requirement led some companies to implement more rigorous policies and procedures (e.g., the establishment of a disclosure committee) or to enhance their internal controls. In contrast, the engagement partner's responsibilities in connection with the planning and conduct of the audit are clearly defined in the professional standards, and the implementation of the signature requirement proposed in the Concept Release would not change those responsibilities. Therefore, unlike the requirement for CEO/CFO signatures pursuant to the provisions of Section 302, which resulted in process changes in certain situations to reflect the clarification of management's responsibility, a requirement for an engagement partner also to sign the auditors' report in his/her name will not result in process changes in the conduct of an audit or provide any clarity or

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changes to professional standards. However, such a requirement could inappropriately convey to the marketplace that professional standards have been enhanced or clarified, in the form of a substantive change in the role and responsibility of an engagement partner when, in fact, no such change was intended by the PCAOB.

Transparency

A second argument for the signature requirement described in the Concept Release relates to transparency. Currently, the identity of the engagement partner is fully transparent to company management and audit committee members, by way of the direct and frequent interactions that occur with both groups throughout the audit process. In addition, although there is no requirement to do so, the engagement partner usually attends the annual shareholders' meeting, and typically is available to respond to appropriate questions. Therefore, shareholders have the opportunity, if they choose to attend the annual shareholders' meeting, to pose questions directly to the engagement partner. Lastly, regulators have the ability to easily identify the engagement partner for all issuer audits. If the Board believes that greater transparency in this area is desired, consideration should be given to requiring that the engagement partner attend shareholders' meetings and be made available to respond to appropriate questions.

Other Potential Unintended Consequences

Potential Inappropriate Inferences

Audits are, and should be, a collaborative effort of the entire engagement team, drawing on the professional resources of the entire firm. As a firm, we have increasingly emphasized the importance of collaboration and consultation in the performance of an audit. Engagement teams are encouraged to deliberate thoroughly among themselves and to consult the national office and others whenever the need arises. In addition, there are numerous areas in the performance of an audit where assistance from internal specialists may be sought (e.g., tax specialists, actuaries, valuation specialists, etc.). A requirement that an individual engagement partner affix his/her name to an auditors' report appears to run counter to this carefully cultivated culture of collaboration, does not take into consideration the role of internal specialists and other members of the engagement team, and would send the wrong message to the marketplace that the opinion is the engagement partner's sole responsibility.

In addition, although the engagement partner plays a critical role in performing an audit, as noted above, there are certain areas in the conduct of an audit where he/she is dependent on the firm's system of quality control with respect to conducting an engagement in accordance with applicable professional standards. Since the users of the financial statements may not be aware of the significant role that a firm's system of quality control plays in providing reasonable assurance that an audit is conducted in accordance with professional standards, we are concerned that an inappropriate inference may be drawn by the marketplace that the engagement partner is responsible for the effective operation of firm-level quality controls if such individual is required to sign the audit report in his/her own name.

Litigation

The Advisory Committee on the Auditing Profession (ACAP), convened by the U.S. Department of the Treasury, recommended in their final report that "the PCAOB undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report."[3] The ACAP Report goes on to state that the "signature requirement should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm."[4] In addition, the Concept Release states that the "Board's intent with any signature requirement would not be to increase the liability of engagement partners." It currently is unclear, from a legal perspective, whether ACAP's or the PCAOB's intent that the engagement partner signature requirement not lead to additional liability for the engagement partner would be borne out. If the PCAOB decides to move forward with the engagement partner signature requirement, we recommend that the PCAOB perform a detailed analysis of the potential liability impact that such a requirement might have on engagement partners, prior to implementing such requirement.

Irrespective of the outcome of the detailed analysis that is recommended above, we believe that an individual engagement partner signature requirement would, at a minimum, make it easier to name engagement partners in lawsuits. Such an occurrence likely would result in an increase in costs incurred in connection with defending the engagement partner, even if the case is without merit. In addition, there are collateral consequences to being named in a lawsuit, beyond the increase in costs that are mentioned above. As an example, the fact that an engagement partner has been named in

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[3] U.S. Department of the Treasury, Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury (October 6, 2008) (ACAP Report), available at http://www.treas.gov/offices/domestic-finance/acap/.
[4] ACAP Report at VII:20.

a suit that seeks a material amount of monetary damages may make it more difficult for that individual to qualify for a mortgage from a lending institution.

Human Capital

The pressures currently encountered in the auditing profession have never been more intense and, unless effectively remedied, likely will pose a real challenge to recruiting and retaining the highly qualified professionals necessary to sustain our profession. While we do not believe that a personal signature requirement would improve accountability or transparency, it could impose additional stress, as well as personal security concerns, on the engagement partner – for example, media coverage of financial problems at a company might cite the audit firm and the individual engagement partner by name – further exacerbating the retention and recruitment, as well as potentially decreasing the willingness, of the best qualified partners to oversee higher risk audit engagements.

Conclusion

We are committed to continually improving our firm and the profession and working constructively with the PCAOB to improve audit quality. As discussed above, we believe that the proposal in the Concept Release, if adopted, is unlikely to achieve the positive change it contemplates, which is a change in behavior on the part of an engagement partner, and likely would result in negative unintended consequences that run counter to the overarching objective to improve audit quality. In addition, we are concerned that the proposal, if implemented, might convey an inappropriate message to the marketplace that something had changed, either in terms of a change in behavior, the procedures performed, or the level of audit quality, while in fact none of these inferred changes would have actually occurred simply as a result of requiring the engagement partner also to sign the auditors' report. Accordingly, we do not support the proposal set forth in the Concept Release for the engagement partner to sign the auditors' report in his/her own name.

*****

KPMG

We would be happy to further discuss the specifics of the issues addressed in this letter in more detail at the request of the Board or its staff.

Very truly yours,

KPMG LLP

cc: Mr. Martin F. Baumann, Chief Auditor and Director of Professional Standards – PCAOB
Mr. James L. Kroeker, Chief Accountant, Office of the Chief Accountant – SEC

McGladrey & Pullen
Certified Public Accountants

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September 10, 2009

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 029

McGladrey & Pullen, LLP appreciates the opportunity to comment on the PCAOB's *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* (the Concept Release). McGladrey & Pullen is a registered public accounting firm serving middle-market issuers.

Overall Comments on the Concepts Release

We do not support requiring the engagement partner to sign the audit report because the report is issued upon the authority of the firm and not the authority of the individual engagement partner. In fact the PCAOB's own standards prohibit the engagement partner from signing the firm's report until he or she has obtained concurring approval of issuance from the engagement quality reviewer assigned by the firm. While it is true that a firm could not issue an audit report that is inconsistent with the views of the engagement partner, the engagement partner also could not issue an audit report that is inconsistent with the views of the engagement quality reviewer or certain firm consultants. We do not accept the argument that signing the audit report personally would cause the engagement partner to exercise greater care in performing the audit. The consequences to an engagement partner of failing to exercise due care in the performance of an audit are significant, and they would be no more or less significant if the engagement partner were required to personally sign the audit report.

We also do not believe that disclosing the identity of the engagement partner within the audit report would provide an incentive for the firm to improve the quality of their engagement partners. The firm is responsible for assigning the engagement partner and the balance of the engagement team as well as the engagement quality reviewer. The issuer's audit committee, and not the investors, is responsible for engaging the audit firm. If the audit committee has concerns about the integrity, objectivity, independence or competency of the engagement partner, they would address those concerns with the firm. If they were not satisfied with the firm's response, they would likely consider engaging another audit firm. These types of decisions are appropriately left with the audit committee and not with the individual shareholders. Providing greater transparency to shareholders would serve no useful purpose because it is not their responsibility to assess the qualifications of the audit firm or the engagement partner.

Engagement-partner vs. firm accountability

A signature requirement by the engagement partner may lead to a misconception by investors in terms of who is responsible for the audit and the issuance of the audit opinion. Audits are accomplished because of all of the resources of a firm. In multi-location and complex audits, the lead engagement partner often relies on the work of other partners, such as those in other locations or those with a certain professional specialty, such as tax partners. Therefore, in addition to the engagement quality reviewer and firm consultants, there can be other partners supporting the firm's signature on an engagement, and the lead engagement partner justifiably relies on them.

The framework that supports a registered public accounting firm's ability to perform high-quality audits is the firm's system of quality control over its accounting and auditing practice. A quality control system is structured to provide reasonable assurance that firm personnel comply with applicable professional standards and applicable regulatory and legal requirements, and that the firm issues reports that are appropriate in the circumstances.

The PCAOB's auditing and quality control standards require firms to assign engagement partners with the integrity, objectivity, independence and competence to discharge their responsibility. One element of a firm's quality control system is the establishment of policies and procedures designed to provide reasonable assurance that a firm has skilled professionals to perform engagements in accordance with professional standards and regulatory and legal requirements and to enable a firm to issue reports that are appropriate in the circumstances. Although the skill and expertise of the engagement partner undoubtedly contribute to audit quality, even an engagement partner who possesses high levels of intelligence, integrity, honesty, motivation, and aptitude for the profession cannot fulfill this element of quality control alone. It takes the extensive resources of a firm to ensure that the capabilities and competence of its professionals are developed through professional education, continuing professional development, work experience, and mentoring by more experienced personnel.

To maintain quality audits, it is critical that all quality control elements be addressed by the firm. Many of these elements cannot be addressed by and are not the sole responsibility of the engagement partner, such as establishing policies and procedures designed to provide reasonable assurance that personnel comply with independence, integrity, objectivity, and other relevant ethical requirements. In addition, some elements of quality control, such as the acceptance and continuance of engagements, require the approval of professionals outside of the engagement team.

Thus, we do not believe that requiring the engagement partner to sign the audit report would enhance audit quality as it is not the engagement partner alone who signs an audit opinion, but rather the firm, which represents the collective efforts of many seasoned professionals.

Transparency

The Concept Release indicates that the signature requirement would increase transparency about who is responsible for performing the audit, which could provide useful information to investors. The audit committee is directly responsible for the appointment, compensation, and oversight of the work of the auditor, and the auditor reports directly to the audit committee. Audit committees therefore represent the investors in this important role. This role has been reinforced by various SEC rules and regulations resulting from the Sarbanes-Oxley Act, as well as stock exchange listing requirements.

To ensure that the audit committee chooses its independent auditor on an informed basis, the audit committee usually develops a list of criteria and expectations that they believe the independent auditor should meet. These criteria include, among others, evaluating the partners who will be assigned to the client service team. During the proposal process the audit committee generally inquires about the SEC and relevant industry experience of the client service team, including the engagement partner.

After an audit committee selects an auditing firm, two-way communication becomes a natural part of an auditor's relationship with the audit committee. Audit committees receive regular partner-level attention during every phase of the audit, as necessary. In addition, throughout the year, the engagement partner communicates with the audit committee during the performance of quarterly reviews of interim financial information. The audit committee generally asks probing questions of management, the internal auditor, and the independent auditors, which allows it the opportunity to continually assess the competency of the engagement partner.

We believe there is currently significant transparency regarding the engagement partner's involvement in the audit. This transparency is achieved through the supervision by the audit committee, which is charged with the responsibility for the appointment and oversight of the work of the auditor on behalf of the investors. Therefore, we do not believe that increased transparency about the identity of the engagement partner would be useful to investors. One potential unintended consequence may be that investors could second guess an audit committee on the selection of an audit firm and the engagement partner. This potentially could result from situations where the engagement partner is associated with another current or former audit client experiencing difficulties (such as bankruptcy, a going concern uncertainty, adverse publicity, *etc.)* that may not relate to audit quality.

<u>Possible implementation issues</u>

There are implementation issues with respect to the requirement for a partner to sign the audit opinion. In its Concept Release, the PCAOB raised certain matters regarding some of the practical implications of this requirement, such as in situations where there has been a change in the engagement partner and where a principal auditor makes reference to another auditor. These potential implementation issues and others highlight the fact that it is the collective resources of a Firm that stand behind an audit opinion and not solely those of the engagement partner.

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to either Bruce Webb (515.281.9240) or Scott Pohlman (952.921.7734).

Sincerely,

McGladrey & Pullen, LLP

McGladrey & Pullen, LLP

MOORE STEPHENS
LOVELACE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

September 10, 2009

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street, N.W.
Washington, DC 20006-2803

Re: Request for public comment: ***Concept Release on Requiring the Engagement Partner to Sign the Audit Report, PCAOB Rulemaking Docket Matter No. 29***

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") Concept Release on Requiring the Engagement Partner to Sign the Audit Report.

The Firm of Moore Stephens Lovelace, P.A. strongly opposes requiring the engagement partner to sign the audit report in his/her name, in addition to the name of the registered public accounting firm. We believe that such requirement would substantially increase the individual partner's exposure in many respects, including legal and potential personal risks, without necessarily providing an outweighing benefit to the quality of audits. We believe that the current requirement for partner's signing audit reports in the audit firm's name is adequate, and that the existing regulatory framework provides for sufficient accountability for both the signing audit firm and the engagement partner to provide reasonable assurance in the quality of audits and in the protection of investors.

A registered public accounting firm is required to conduct audits of public companies in accordance with the PCAOB's and the firm's own policies and procedures, which are/or should be based on applicable rules and regulations. The engagement partner is an implement of the firm and it is the firm, and its related quality control policies and procedures, including concurring partner review, that has ultimate and final responsibility for the quality of the audit, not the individual engagement partner. An engagement partner is required to follow their firm's policies and procedures in conducting audits assigned to him/her.

Registered firms are subject to the PCAOB inspection program, and the PCAOB has the authority and has been known in practice to sanction not only the firm but personally the engagement partner in charge of deficient audits. PCAOB enforcement decisions are public information, and they do disclose the partner's name in addition to the firm's name. We believe it is at the point when violations are proven that it becomes prudent for the protection of investors to disclose the partner's identity, along with the nature of violations.

The above arguments are, in our view, just a few of the most obvious practical considerations from the perspective of a registered public accounting firm. We believe these points emphasize significant uncertainties surrounding the perceived benefits of the proposed requirements being justified and warranted over the existing regulatory and enforcement system. In addition, the proposed requirements for engagement partner's personal signature may result in audit firms potentially leaving the public company audits market due to the perceived and actual unwarranted increased personal risk for audit partners. This, in turn, may result in less competition and increased audit costs for publicly traded companies. Those firms remaining in the market could potentially charge higher fees due to perceived increased liability. Increased costs of regulatory compliance, including increases in audit fees, have arguably resulted in a large number of companies opting out of the United States capital markets in recent years. Additional increases in audit costs could potentially further contribute to this negative trend.

We fully support the mission of the PCAOB and trust that rule-making in the public company auditing arena should be driven by protecting the interests of the investing public, as well as by maintaining a sound balance between providing such protection and ensuring that compliance and liability provisions are reasonable and not overbearing to the extent of potentially limiting free-market participation by audit firms. Let us remember that despite a number of setbacks, the public accounting profession in the United States has been for decades and does remain one of the most trusted professions in our society.

Sincerely,

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.

VIA FEDEX PRIORITY OVERNIGHT

new york state society of
NYSSCPA
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September 10, 2009

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

By e-mail: comments@pcaobus.org

Re: PCAOB Release No. 2009-005 – Concept Release on Requiring the Engagement Partner to Sign the Audit Report (PCAOB Rulemaking Docket Matter No. 029)

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned concept release.

The NYSSCPA's SEC Practice Committee and Auditing Standards Committee deliberated the concept release and prepared the attached comments. If you would like additional discussion with us, please contact Anthony S. Chan, Chair of the SEC Practice Committee at (212) 331-7653, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

David J. Moynihan
President

Attachment

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NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PCAOB RELEASE NO. 2009-005 – CONCEPT RELEASE ON REQUIRING THE ENGAGEMENT PARTNER TO SIGN THE AUDIT REPORT

(PCAOB RULEMAKING DOCKET MATTER No. 029)

September 10, 2009

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Robert N. Waxman

NYSSCPA 2009 – 2010 Board of Directors

NYSSCPA 2009 – 2010 Accounting & Auditing Oversight Committee

NYSSCPA 2009 – 2010 SEC Practice Committee

NYSSCPA 2009 – 2010 Auditing Standards Committee

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NYSSCPA Staff

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New York State Society of Certified Public Accountants

Comments on

PCAOB Release No. 2009-005 – Concept Release on Requiring the Engagement Partner to Sign the Audit Report

(PCAOB Rulemaking Docket Matter No. 029)

We are pleased to respond to the Public Company Accounting Oversight Board's ("PCAOB") *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* (the "Release"). We believe that the current practice of signing all audit reports in firm name only should be continued and, for the reasons set forth below, that the Board's stated goals of increased accountability and transparency will not be met. Moreover, we believe adoption of the requirement will reduce and obscure transparency. Further, the analogies cited as to the standards in the European Union and to the requirements of Section 302 and 906 of the Sarbanes-Oxley Act, in our view, are inapplicable due to a different legal environment in the former and to different objectives of the latter.

Audits of public companies frequently are complex undertakings involving numerous professional staff and partners from the audit firm and, in some instances, associated firms. The engagement partner is primarily responsible to his or her client and the firm for the conduct and management of the audit and the expression of the audit opinion.

In this regard, the engagement partner plans and executes the audit to comply with the standards of the PCAOB. However, the engagement partner will do so utilizing the audit firm's audit methodology, including its own system of quality control. This enables all firm personnel to have a common understanding of how the engagement will be conducted.

The engagement partner remains primarily responsible for the supervision and review of the audit. Nevertheless, he or she may be assisted by other partners on audits of larger entities, including partners with specialized knowledge (e.g., taxation, information technology, or certain industries).

The audit firm will have consultation standards with which the engagement partner must comply. This could include not only the engagement quality reviewer but also others within the firm's quality control, industry, or regional or national office structures.

The firm's signature, therefore, emphasizes the shared responsibilities that the firm has entrusted to the engagement partner, the other partners and consultative resources used during the audit. It also underscores the fact that notwithstanding obligations to the public – a part of the bedrock of the auditing profession – the firm's client is the registrant's board of directors, generally through the audit committee. As we will comment later, the audit committee has the ability to evaluate the competency of the audit firm's personnel to perform the audit.

The Release hypothesizes that a requirement for the partner to sign the audit report individually could improve audit quality. As indicated in the Release, several individuals have indicated their belief that a sense of personal accountability may be increased resulting in exercising greater care. We disagree. Partners, as professionals, have embraced high ethical standards which require the highest level of due care, recognizing that the professional has a responsibility to the public, the client and the audit firm. The audit firm has accepted responsibility to train, supervise and evaluate all of their professional personnel, including partners. Also, the firm has established a quality control system that includes policies and procedures for client acceptance and continuance, assigning engagement personnel, engagement performance, monitoring and oversight, documentation, etc. Failure to carry out their responsibilities, evidenced, for example, by a deficient audit, subjects the audit firm to grave risks to its reputation and its capital that can, and has, contributed to the collapse of an entire firm.

Further, those partners responsible for the conduct of a particular audit have personal economic and professional risks beyond that of the capital base of the audit firm. We do not believe that the institution of a requirement for the engagement partner to personally sign an audit report would heighten a sense of accountability. Partners should be, and already are, operating at the highest level of ethical and professional responsibility.

To our knowledge, there is no research or empirical evidence that directly or indirectly links the use of the audit partner's name in the audit report to an enhanced accountability or higher quality audit. Such linkage is entirely supposition.

We believe that litigation against the engagement partner would be encouraged by the proposed requirement, and that the courts could decide that affixing an individual's personal signature extends the limits of civil liabilities.

The Release further states that a personal signature of the engagement partner would increase transparency about who is responsible for performing the audit. We believe that it is the audit firm which is responsible for the audit. We recognize that it is the collective efforts of the engagement partner and the other partners and staff that assist in or consult on the audit which enables the firm to express its opinion. This shared responsibility is emphasized by the firm's signature, as it is the firm that has entrusted and delegated the responsibility to the engagement partner and the others participating on the audit. To require that the primary individual responsibility be set forth in the audit report, either by including that partner's signature or otherwise disclosing his name (as posed as an alternative in Question 3 on Page 8 of the Release) would diminish the emphasis on the responsibility of the firm as a whole.

Further, what benefit would this perceived increased transparency bring? Are users of financial statements aware of the individual qualifications of the thousands of engagement partners involved with audits of public entities? We think not. The personal signature alone would not enable a user to make any better judgments about the quality of the audit.

Also, the representatives of the shareholders, the board of directors through the audit committee, would have met and be familiar with the qualifications of the engagement partner and other key members of the audit team. Typically, when a new engagement partner is introduced to an audit committee, the committee is presented with the qualifications of the engagement partner, including experience with audits of similarly complex entities and specialized industries. Similar information is provided usually for other key members of the audit team. We believe that audit committees already receive sufficient information about the engagement partner's qualifications, and that they have the ability to interview the engagement partner to satisfy the committee's due diligence needs. In addition, the audit committee, at a minimum, is in frequent communication with the responsible audit partner due to the required communications before every filing of Forms 10-K and 10-Q and registration statements filed with the SEC.

Further, there are several pitfalls likely to develop by requiring the engagement partner's signature. It is a well known practice of the investment banking industry to require a "Big Four" auditor in connection with various registration statements. This practice preceded by many years the creation of the PCAOB. Under the proposed rule, underwriters would eventually develop a sub-set of "approved engagement partners" or partners with specialized industry knowledge – this despite the fact that industry expertise might be provided by other than the engagement partner, and in some engagements in some firms, by an individual below the level of partner. Rather than increase competition as the Release suggests, we believe such a development would further obscure transparency.

As noted in the opening paragraph, analogy to Sections 302 and 906 of the Sarbanes-Oxley Act is not on-point. The degree of responsibility and authority of a registrant's CEO and CFO has no analogy in a registered firm, unless the Release were to be amended to include a requirement that a registered firm's managing partner or the engagement quality reviewer and the director of accounting and auditing (or similar function) for the firm also sign the audit report. The illogic of such a requirement is clear. It should be noted that those requirements do not change the liability of those signing SEC filings and no empirical evidence has been developed as to the effect of such requirements on accounting fraud or audit failures.

Lastly, the Release suggests several technical difficulties in implementation in regard to: prior year reports; reissued reports; reports on restated financial statements; and engagements where more than one audit firm is involved; or when engagement partner rotation has occurred during the period encompassed by the financial statements. The implementation of this requirement would also create issues with the wording of "experts" sections and "consents" in registration statements. The impact of such necessary implementation rules would vitiate any transparency resulting from identifying the current year's engagement partner.

In conclusion, we believe that the requirement as proposed in the Release would not achieve the stated goals. To the contrary, it would have a deleterious effect on the clarity of the audit reports that have been the hallmark of the profession for so many decades. As CPAs and audit professionals, and in our collective experience, the addition of the signature of the engagement partner would not increase professionalism, dedication, accountability, transparency or the quality of audits. We are convinced that requiring signatures has nothing to do with quality audits and that such a requirement would provide no apparent benefit.

PBTK
PIERCY BOWLER TAYLOR & KERN
Certified Public Accountants • Business Advisors

September 11, 2009

To: Office of the Secretary, PCAOB
1666 K Street, N.W., Washington, D.C. 20006-2803
Transmitted by e-mail to: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 29

We are pleased to respond in this letter to the "Concept Release on Requiring the Engagement Partner to Sign the Audit Report" that is contained in PCAOB Release No. 2009-005 dated July 28, 2009 (the Release).

Please be advised that we are firmly against any proposal for individual partner signatures that might follow the Release as entirely unnecessary and without any discernible benefit to investors or others. Accordingly, we are expressing our views directly and frankly with all due respect to those responsible for advocating the Board's consideration of such a proposal.

We believe the best way to address our concerns about the Release is to address the reasons given for it in the first few paragraphs of part II of the Release. The suggestions that a requirement for audit engagement partners to sign their own names to audit reports (a) "might increase the engagement partner's sense of accountability to financial statement users, which could lead him or her to exercise greater care in performing the audit" (b) "would increase transparency about who is responsible for performing the audit, which could provide useful information to investors and, in turn, provide an additional incentive to firms to improve the quality of all of their engagement partners," or (c) would cause the partner to "perform a higher quality audit" are virtually imaginary or fictional benefits that must have been proposed to the Board for its consideration only by those who do not understand the professional reality of the environment in which audits are conducted.

First, with rare exceptions, we believe that audit partners in the United States who sign off on audit reports for issuers fully understand the formidable risks and responsibilities undertaken by them in such activities. They function not only in the face of risks of loss of employment and their rights to engage in professional practice, but of severe monetary damages and even possible imprisonment. We believe that the rare individual who is not now sufficiently influenced by such powerful disincentives that are already in place would not likely be moved to alter his or her behavior as consequence of such a requirement as is now under consideration. In other words, in our opinion, it would not be any more than remotely likely that such a requirement for engagement partners to sign their own names to audit reports would afford any significant incremental incentive for them to exercise greater care or to perform higher quality audits, or for their firms to take steps to improve the quality of all of their engagement partners. In fact, we believe such a requirement would add nothing to the probability of a firm's achievement of an audit quality objective that is not already afforded by the applicable quality control, ethical and other professional standards already in place, the regulatory oversight provided by the PCAOB's rigorous inspection program, and the other disincentives mentioned above against anything less than quality audit work.

The weak reasons offered by proponents for such a requirement run directly counter to the statement contained in the Release that is attributed to the 2008 report of the Advisory Committee on the Auditing Profession (which we acknowledge and with which we concur) that "the signature requirement should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm." Secondly, among the thousands of audit engagement partners now signing their firm's names to audit reports, none of their names are household words. On the contrary, such names are unknown and, therefore, mean nothing to financial statement users. Moreover, even if such names were known to users, it would be impossible for them to be able to assess the relative capabilities thereof even with access to their brief professional biographical summaries. Accordingly, we believe it is not reasonable and without basis to suggest that public disclosure of their names could in any way be "useful to investors." In fact, the only parties for whom such information could be useful are private and regulatory litigants who, as also pointed out in the Release, can obtain such information in discovery proceedings with little or no cost or trouble.

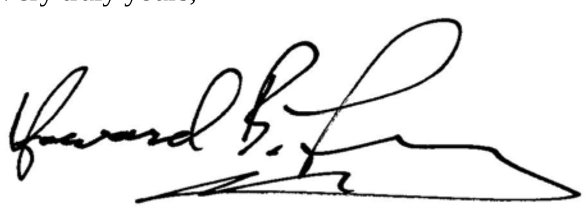
Given the foregoing arguments against the virtually imaginary benefits claimed to be achievable from adopting such a proposal, if it is forthcoming, it would appear to be motivated by an overzealous obsession with convergence for its own sake. We object to the "copycat" behavior that results from an irrational belief that if it is done in the international arena, we should do it here, too. Maybe this requirement is meaningful in Europe, but we believe it would not be so here because of the legal, regulatory and other disincentives in this country that are mentioned above.

Accordingly, our answer to each of the questions 1-5 posed on pp. 8-9 in of part II of the Release would be a firm "no." We fully concur with the comments of the AICPA's Center for Audit Quality that is quoted in footnote 21 on p. 10 of the Release. As to question 6, we believe such a requirement might cause some signing engagement partners to be entirely unwilling to rely on the judgment of others for even the most apparently inconsequential matters, thus causing them to invest an unreasonable excess of time supervising and reviewing the work of subordinates possibly resulting in an inability of certain issuers to file reports timely. In addition, as noted on p. 74 of the transcript[*] of the October 23, 2008, meeting of the Board's Standing Advisory Group (SAG), one SAG member pointed out the danger of presented in the form of a risk that a signing partner might interpret his or her signing responsibility as enabling or requiring him or her to override or ignore the firm's position on a technical matter. Another SAG member added (p. 88) that a publicly named partner would be less likely to consult with others, thus diminishing audit quality. Although we see no other unintended consequence of any proposed requirement, we see no benefit whatsoever to be achieved by its adoption in the United States.

We cannot speak to questions 7-10, and because we are so firmly against a signature requirement such as is being considered, we have chosen not to speak at this time to questions 11-16 of part III of the Release.

Thank you for this opportunity to comment. We hope the Board finds our comments useful in its deliberations on this matter. Please contact the undersigned at hlevy@pbtk.com or 702/384-1120 if there are any questions about this response.

Very truly yours,



Howard B. Levy, Sr. Principal and
Director of Technical Services
Piercy Bowler Taylor & Kern
Certified Public Accountants

[*] http://www.pcaobus.org/Standards/Standing_Advisory_Group/Meetings/2008/10-22/SAG_Transcript.pdf

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September 11, 2009

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 29, Concept Release on Requiring the Engagement Partner to Sign the Audit Report

Dear Sir:

PricewaterhouseCoopers LLP ("PwC") appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Concept Release on Requiring the Engagement Partner to Sign the Audit Report.*[1]

Currently, under PCAOB Auditing Standards audit reports issued by an accounting firm on the financial statements of an issuer are manually signed in the name of the firm by the partner responsible for the audit (the "engagement partner"). The Concept Release considers whether the Board should require that the engagement partner sign the audit report in his or her own name, in addition to the firm's name. We appreciate that the Board has begun this process with the issuance of a concept release, rather than a proposed standard, given the need to carefully study the merits and consequences of proposing changes to the Board's standards in this area. The Concept Release seeks comment on whether adopting a signature requirement would improve audit quality by (1) increasing an engagement partner's sense of personal accountability and (2) increasing transparency about the qualifications of individual auditors.

PwC supports the goal of improving audit quality and agrees that accountability and transparency are relevant components of audit quality. In PwC's view, however, the proposal set forth in the Concept Release reflects an incomplete assessment of the factors that may contribute to improved audit quality, as well as of the nature of the auditing process and the role of the engagement partner in that process. It is premised on an unsupported assumption that engagement partners, as a class, need to have an increased sense of accountability in order to achieve improved audit quality.

Contrary to the assumption underlying the Concept Release, an audit opinion reflects the cumulative effort of myriad individuals rather than the professionalism or competence of the engagement partner alone. The engagement partner has final responsibility for the audit, but the audit is conducted by a team that may be composed of many other partners, managers and other

[1] PCAOB Release No. 2009-005 (July 29, 2009) ("Concept Release")
http://www.pcaob.org/Rules/Docket_029/2009-07-28_Release_No_2009-005.pdf.

professionals, many of whom bring specific substantive expertise to important areas of the audit such as valuation, information technology, treasury and taxation. Engagement teams often consult with the firm's national office and with other specialists within the firm. Some of these consultations are required by firm policy, while others are the result of an engagement team's judgment based upon the facts and circumstances of the engagement and the specific expertise of the engagement team. The engagement is subject to an engagement quality review by a partner who is not part of the engagement team but who must provide concurring approval of the issuance of the audit report. Additionally, the firm provides a variety of quality control mechanisms in support of the performance of audits.

The current practice of signing the audit report in the name of the firm appropriately reflects the reality that the quality of an audit depends not just on the qualifications and competence of the engagement partner, but on the qualifications and competence of many people at the firm with involvement in the audit, as well as on the quality controls established and monitored by the firm. An additional requirement that the engagement partner sign the report in his or her individual capacity would inappropriately and incorrectly suggest that the audit was the product of one person rather than of the firm.

PwC believes the proposal to require the engagement partner to sign the audit report would provide no additional benefit over and above the numerous quality control measures currently in place to assure an engagement partner's performance of his or her function with the appropriate level of care. PwC also believes the proposed requirement could result in unintended adverse consequences and burdensome complexities that would be counterproductive to the efficiency, timeliness and cost effectiveness of the audit process. Finally, and in direct conflict with the Board's stated intentions, the proposed requirement could significantly increase the likelihood that engagement partners will be named in private litigation brought pursuant to the federal securities laws. Accordingly, PwC does not support the Board's proposed requirement.

The Proposal Will Not Enhance Audit Quality

Requiring an engagement partner to sign the audit report in his or her own name would not provide any additional benefit over and above existing mechanisms for accountability and transparency, and, in fact, could result in unintended adverse consequences.

Accountability

The Concept Release states that having an engagement partner sign the audit report would enhance audit quality because it "might increase the engagement partner's sense of accountability to financial statement users, which could lead him or her to exercise greater care in performing the audit."[2] Given that the Board explicitly disclaims an intention to enhance the engagement partner's personal liability, it appears that the Board is considering whether the mere physical act of affixing one's manual signature to the report in and of itself would increase an engagement partner's sense of accountability, or, perhaps more pointedly, improve the engagement partner's commitment to audit quality. During the July 28, 2009 open meeting, one

[2] *Id.* at 5.

Board member stated that "members of the profession, public companies and academics noted the psychological affects of putting your 'John Hancock' in an official and public document."[3]

PwC respectfully disagrees with this premise. In addition to resting on an unsupported assumption that engagement partners, as a class, need to have an increased sense of accountability in order to achieve improved audit quality, it also disregards the many accountability mechanisms, controls, and incentives that already exist to ensure that the engagement partner—along with all other members of the engagement team and the firm as a whole—conduct the audit with the necessary due care and professionalism.

First, engagement partners are already strongly motivated by many tangible and intangible factors to ensure that audits are conducted with due professional care, thereby contributing to audit quality. These motivations include the partner's sense of personal responsibility to the firm and his or her partners and clients, and to investors; the partner's desire to maintain his or her personal reputation within the firm and the profession; and the importance of audit quality to the partner's compensation. Numerous internal firm quality controls exist today that identify the engagement partner and require personal sign-off as evidence of his or her approval of issuance of the firm's audit report. It is also worth noting that the engagement partner already manually signs the audit report, just in the name of the firm, not his or her own name. There should be little doubt that this act itself, which binds the firm, causes the engagement partner to feel a strong sense of personal responsibility that guides his or her actions throughout the engagement.

Second, there are multiple internal firm and external mechanisms that make the engagement partner accountable and impel him or her—along with the firm as a whole—to exercise care in conducting the audit. A principal driver, of course, is the PCAOB's auditing standards themselves. An engagement partner and his team conduct an audit with the knowledge that the firm's audit report, in the end, must state "that the financial statements present fairly, in all material respects, an entity's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles," and that "[t]his conclusion may be expressed only when the auditor has formed such an opinion on the basis of an audit performed in accordance with generally accepted auditing standards."[4] One of the most fundamental of these standards is that the audit be conducted with due professional care—a standard to which the engagement leader, as well as the other members of the team, is subject.[5] The Board should not presume that an engagement partner will not consistently meet the standard of due professional care absent a requirement to sign the report in his or her own name. In addition, firms' internal quality control programs are required to be designed to provide reasonable assurance that individual auditors, including engagement partners, comply with professional standards.[6] Such mechanisms include an assessment of the results from internal and external

[3] PCAOB Open Meeting, July 28, 2009 *available at* http://www.pcaob.org/News_and_Events/Events/2009/Podcasts/pcaob-072809-P2.mp3 (statement of Steven B. Harris).

[4] Reports on Audited Financial Statements, PCAOB Interim Auditing Standards, AU Section 508.07.

[5] Due Professional Care in the Performance of Work, PCAOB Interim Auditing Standards, AU Section 230.

[6] System of Quality Control for a CPA Firm's Accounting and Auditing Practice, PCAOB Interim Quality Control Standards, QC 20.03

audit quality reviews, as well as an assessment of related compensation penalties and other remedial measures designed to reinforce the importance of achieving consistently high audit quality.

Third, an auditor's sense of personal accountability is not just driven by a sense of obligation to abide by professional practice standards but also by strong regulatory oversight. Personal accountability is reinforced by the Board's broad inspection powers and its investigatory and disciplinary authority over acts by an accounting firm and individuals associated with the firm that may violate the Sarbanes-Oxley Act, PCAOB rules, securities laws, or professional standards. The possibility that a board inspection could result in findings of deficiencies in an audit also reinforces accountability for the engagement partner.

Fourth, the SEC's powers to enforce the securities laws against auditors provide yet another important means of reinforcing auditor accountability above those already discussed. The SEC can charge an auditor, as an individual, for violations of the securities laws and it can, in certain circumstances, bar an accountant from appearing and practicing before the SEC under Rule 102(e).

In light of the strength of the above-described existing auditor accountability framework provided by PCAOB auditing standards, PCAOB and SEC inspection, disciplinary, and enforcement authority, and internal firm quality and accountability controls, the conclusory assertion in the Concept Release that the act of signing one's name to a report would cause an auditor to "perform a higher quality audit" seems without merit. Accordingly, if and before it proposes any changes to the Board's existing standards, we would encourage the Board to appropriately study whether meaningful support exists for the assumption that an individual signing in his or her own name would actually promote positive behavioral changes and enhance audit quality.

Finally, PwC believes strongly that all members of an audit team must be accountable for the quality of an audit and that a shared sense of accountability among the entire professional staff on the engagement should be encouraged. Singling out the engagement partner as proposed in the Concept Release may operate counter to that shared sense of responsibility.

The Concept Release and many advocates of the signature requirement rely on an analogy to Section 302 of the Sarbanes-Oxley Act,[7] which requires an issuer's CEO and CFO to certify the company's annual and quarterly reports, to support the notion that the act of signing one's name results in increased accountability. Those certification requirements, along with the parallel provision of Section 906 of the Sarbanes-Oxley Act,[8] were enacted to address a specific problem—a perceived abdication by these senior officers of responsibility for the accuracy and completeness of a company's financial statements and SEC reports. Those provisions, along with other Sarbanes-Oxley requirements, including management responsibility for establishing

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[7] 15 U.S.C. § 7241. Pursuant to Section 302, the SEC adopted rules implementing the officer certification requirement in Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. Regulation S-K, Item 601(b)(31), 17 C.F.R. § 229.601(b)(31).

[8] 18 U.S.C. § 1350.

disclosure controls and procedures and internal control over financial reporting, were designed to impose on CEOs and CFOs accountability that Congress believed was lacking.[9] Indeed, a major consequence of the Sarbanes-Oxley certification requirements was to impose personal liability—and in the case of Section 906, even criminal liability—on the CEO and CFO as an incentive to ensure the accuracy of the company's reports. This stands in direct contravention to the statements in both the Concept Release and the Final Report of the Treasury Department Advisory Committee on the Auditing Profession ("ACAP") that they do not intend the engagement partner signature requirement to increase an engagement partner's personal liability.[10] Here, there is simply no basis whatsoever to conclude that there has been a comparable abdication of responsibility by engagement partners warranting imposition of individual certification requirements. In fact, as noted by one Board member in discussing the Board's proposal and the analogy to the Sarbanes-Oxley certification requirements, "In contrast, engagement partners rarely, if ever, deny responsibility for the audit report."[11]

Transparency

In addition to enhanced accountability, the Concept Release states as its second goal "increase[d] transparency about who is responsible for performing the audit, which could provide useful information to investors and, in turn, provide an additional incentive to firms to improve the quality of all of their engagement partners."[12] The release suggests that providing financial statement users, audit committees, and others with the name of the engagement partner might help them evaluate that engagement partner's experience and skill. Of course, audit committees and regulators already have quite ready access to information about the identity of the engagement partner. So the only question is whether the signature requirement would provide meaningful information to financial statements users. PwC submits that a signature requirement is unlikely to assist users of audit reports to evaluate an engagement partner's qualifications or to predict the quality of an audit.

As discussed previously, including an individual engagement partner signature on the audit report could create the misimpression that a single person is responsible for the quality of an audit, when, in fact, an audit is the result of the effort and collaboration of many individuals in the firm, including accountants, subject matter experts, and the national office. While

[9] *See e.g.*, 149 Cong. Rec. S5325-31 (daily ed. Apr. 11, 2003) (statement of Sen. Biden); Certification of Disclosure in Companies' Quarterly and Annual Reports, Securities Act Release No. 8124, Exchange Act Release No. 46427, and Investment Company Act Release No. 25722, 67 Fed. Reg. 57,276, 57, 285 ("We believe that investor confidence in corporate disclosure has suffered, in part, because of a belief that corporate officers may not devote sufficient attention to the preparation of their companies' periodic reports and to the disclosure controls and procedures that generate the data from which they are prepared."); John T. Bostelman, 2009 Sarbanes-Oxley Deskbook, § 4:2, § 4:2.1, at 4-15 ("One effect, and presumably purpose, of the management certification requirement is . . . to require that the CEO and CFO become sufficiently personally involved in the preparation of SEC annual and quarterly reports that their personal liability under the securities laws for material misstatements or materially misleading statements can be readily established . . .").

[10] Concept Release at 11; Advisory Comm. On the Auditing Profession, U.S. Dep't of the Treasury, Final Report VII.20 (2008) ("ACAP Final Report").

[11] PCAOB Open Meeting, July 28, 2009 (statement of Charles D. Niemeier).

[12] Concept Release at 5.

engagement partners necessarily have final decision-making authority in applying the firm's policies, procedures, and methodologies, an audit necessarily represents a collaborative effort that involves many individuals and relies upon various elements of the firm's system of quality control.

Moreover, it is unclear exactly what an investor will learn from public disclosure of the name of the individual who signs the audit report. In virtually all cases, an engagement partner will not otherwise be known to the investing public and his or her sole identifying characteristic will be nothing more than that he or she is a partner of the firm. The provision of the engagement partner's signature, or identity, would not provide any useful information regarding "an engagement partner's experience on a particular type of audit" or "his or her track record."[13]

Worse, given that the only information to be provided to an investor is the name of one individual, a signature requirement could have negative implications. It could result in the creation of databases or other clearinghouses that attempt to create a "box score" of the skills and qualifications of individual auditors—resulting in what is likely to be incomplete and misleading information. It is likely such "scorecards" would not appropriately consider the importance of the firm's system of quality control to audit quality and could potentially lead to investors' making unwarranted conclusions about the qualifications of individual auditors or their firms. For example, such databases could produce misleading statistical analyses based on the number of audits performed by an engagement partner or they could level unfair criticism or create adverse publicity for the individual auditor simply because he or she was named as an engagement partner for an audit of a controversial company. Proliferation of these types of databases, in turn, could interfere with an audit firm's or audit committee's informed judgment with respect to, for example, auditor rotations or partner assignments.

A more reliable resource to an investor regarding the qualifications and skills of an engagement partner is the issuer's audit committee. In the Sarbanes-Oxley Act, Congress mandated that an issuer's audit committee "shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer . . . "[14] Investors in a public company appropriately rely on the judgment of the audit committee to engage the appropriate independent accounting firm for the company, to oversee and communicate with the engagement team regarding important aspects of the audit, and to evaluate the accounting firm's performance. The audit committee's responsibilities with respect to the company's independent auditor necessarily includes informing itself, on behalf of investors, about the qualifications, experience, skills and performance of the engagement partner. Indeed, the New York Stock Exchange's corporate governance rules require that the audit committee's written charter include in its purpose that the audit committee will assist in board oversight of the independent auditor's qualifications. The commentary to that rule states that, "After reviewing the [audit] report and the independent auditor's work throughout the year, the audit committee will be in a position to evaluate the auditor's qualifications, performance and independence. *This evaluation should include the review and evaluation of the lead partner of the independent*

[13] *Id.* at 9.

[14] 15 U.S.C. § 78j-1(m)(2).

auditor."[15] Although this requirement applies only to NYSE-listed companies, it reflects best practice that we believe is followed by most audit committees. Once engaged, audit committee members interact regularly with the engagement partner throughout the course of their oversight of the company's audit process. As such, they are best positioned to assess the qualifications and performance of the engagement partner on behalf of financial statement users.

The Proposal Will Create Unintended Consequences

Not only would the proposed signature requirement not, in our view, achieve the stated goals of improving audit quality through increased accountability and transparency, it could lead to behavior that detracts from the stated goals.

As previously discussed, an engagement partner signature requirement is not consistent with the fundamental reality that the entire firm stands behind the audit report. Requiring an engagement partner to individually sign the audit report could create the perception that engagement partners are following a "go-it-alone" approach rather than engaging in meaningful consultation and collaboration with others. Further, heightened concerns about personal liability may cause engagement partners to be less willing to make the professional judgments imperative to the execution of timely and cost effective, high quality audits. Such hesitancy could result in increased audit costs without a corresponding improvement in audit quality and demand for more "bright lines" in auditing standards—similar to the issues the Board addressed when it replaced Auditing Standard No. 2 with Auditing Standard No. 5 to address concerns regarding the cost effectiveness and degree of professional judgment applied in audits of internal control over financial reporting.

Finally, it would be difficult to implement this proposal. In certain circumstances, such as a reissuance of an audit report or after an engagement partner rotation, an audit report might contain financial statements for periods in which the current engagement partner may not have been involved. This could require multiple engagement partner signatures and/or an explanation as to what part of the report each individual signature relates. These potential practical complexities underscore that this proposal fosters the incorrect assumption that the engagement partner, rather than the firm as whole, is ultimately responsible for the particular years that he or she serves as engagement partner.

The Proposal Could Expose Engagement Partners to Unwarranted Lawsuits and Claims of Personal Liability under the Federal Securities Laws

Although PwC believes that a signature requirement would not enhance audit quality in any meaningful respect, the proposal might be less problematic if it did not raise the very real possibility of significantly increasing the exposure of the engagement partner to claims of personal liability. The statement in the Concept Release that, "[t]he Board's intent with any

[15] New York Stock Exchange Listed Company Manual, Rule 303A.07 commentary (emphasis added) *available at* http://nysemanual.nyse.com/LCMTools/PlatformViewer.asp?selectednode=chp%5F1%5F4&manual=%2Flcm%2Fsections%2Flcm%2Dsections%2F.

signature requirement would not be to increase the liability of engagement partners"[16] correctly acknowledges that it would be unfair to impose special liability on one partner in an accounting firm on the basis of an audit that is the work of the firm as a whole. Similarly, merely the increased possibility of being named as a defendant in a private law suit brought under the federal securities laws would have unjustifiable consequences for the partner—including the personal and reputational consequences of being named as a defendant, the potential distractions of having to separately defend oneself in the lawsuit, and the potential negative consequences in such circumstances of a partner having to consider his or her interests as opposed to those of the firm and its other partners.

We appreciate that the EU's Eighth Company Law Directive requires the adoption of a requirement that an engagement partner sign the audit report. However, the EU nations and other countries do not have the unique litigation environment that exists in the United States. For example, UK law does not allow shareholder class actions to be brought against auditors based on a drop in share price.[17] Thus, we believe that there are good reasons why a signature requirement will be more problematic in the United States than it would be in other countries.

As discussed below, we believe that there is a significant risk that requiring an engagement partner signature on audit reports would result in an unwarranted increase in purported claims asserted against the signing partner, with potentially inconsistent results from the courts. These risks and attendant costs clearly outweigh any possible benefits that might be obtained from an engagement partner signature requirement.

Section 10(b)/Rule 10b-5 Claims

Section 10(b) of the Securities Exchange Act of 1934,[18] and Rule 10b-5 promulgated thereunder,[19] permit private plaintiffs to bring suit for damages against persons alleged to have made materially false or misleading statements in connection with the purchase or sale of securities. Under the *Central Bank* decision, only "primary" actors can be liable under Section 10(b).[20] As the Board notes on pages 11-12 of the Concept Release, under current law there are different standards in different federal appeals courts about when a person who did not make a statement that is alleged to be false or misleading can nonetheless be deemed a primary actor for purposes of Section 10(b) liability. Some circuits follow a "bright line" approach to primary liability for secondary actors, holding that a secondary actor cannot be held liable unless he or

[16] Concept Release at 11. The Release also cites language from the ACAP report, which states, "the signature requirement should not impose on any signing partner any duties, obligations, or liability that are greater than the duties obligations and liability imposed on such person as a member of an auditing firm." ACAP Final Report at VII.20.

[17] *See Caparo Indus. Plc v. Dickman*, [1990] 2 A.C. 605 (holding that auditors are only liable to individual shareholders for economic loss due to negligent misstatements if the auditor had directly assumed responsibility to the shareholder for the accuracy of particular information for its use by the shareholder for a particular known purpose).

[18] 15 U.S.C. § 78j(b).

[19] 17 C.F.R. § 240.10b-5.

[20] *Cent. Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A.*, 511 U.S. 164, 114 S. Ct. 1439 (1994); *see also Stoneridge Inv. Partners, LLC v. Scientific-Atlanta*, 552 U.S. 148, 128 S. Ct. 761, 773-74 (2008).

she actually makes a publicly attributable false or misleading statement. Other circuits apply other tests, each of which holds that secondary actor can be held liable, depending on the facts, for the statements of others and/or for statements that are not publicly attributable to that actor. In these circuits the determination of whether a person can be considered to have made a "statement" for the purposes of Section 10(b) liability depends on the facts and circumstances of each case.[21]

The Board suggests that in certain of these jurisdictions, individual accountants might already be subject to primary liability, even without having signed the audit report in their own names.[22] Putting aside its legal merit, this suggestion simply misses the point. It is entirely foreseeable that a plaintiff would seek to use an engagement partner's signature on the audit in an attempt to cut through all of the law regarding when secondary actors may or may not be deemed to be primarily liable. As the Board correctly notes in the Concept Release, "when the firm signs the audit report it makes the statements within it and may be held liable for them" under Section 10(b).[23] While there would be strong legal (and likely factual) arguments to the contrary, plaintiffs are very likely to allege that the engagement partner who signs the report in his or her name is making a "statement." Obviously, there is no assurance that some courts would not be persuaded by plaintiffs' allegations, resulting in potentially inconsistent outcomes in the courts. It seems certain, therefore, that firms and their partners, as individuals, would likely be subjected to many years of expensive litigation in various trial and appellate courts to resolve this question.

"Expert" Liability

Sections 7 and 11 of the Securities Act of 1933 impose "expert" liability on an "accountant . . . who has with his consent been named as having . . . certified any part of the registration statement."[24] An engagement partner who signs the audit report on financial statements in a registration statement could well be deemed to have been "named" as having "certified" those financials. Section 7 requires an issuer to obtain the consent of named experts.[25] Thus, the engagement partner would be required to consent to the use of his or her name in the registration statement. A plaintiff could then claim that the engagement partner is subject to Section 11 liability for any materially false or misleading statement in the audit report, without regard to the engagement partner's state of mind and subject only to a due diligence defense. While an engagement partner would have legal and factual defenses, including arguing that signing on behalf of the firm in his or her own name does not amount to being named personally as an expert, one can reasonably anticipate substantial litigation over this question as well.

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[21] Louis Loss & Joel Seligman, Fundamentals of Securities Regulation 1328-32 (5th ed. 2004).

[22] Concept Release at 12.

[23] *Id.* at 11. This proposition is well-established. *See e.g.*, *Anixter v. Home-Stake Prod. Co.*, 77 F.3d 1215, 1225-27 (10th Cir. 1996); *McGann v. Ernst & Young*, 102 F.3d 390, 397 (9th Cir. 1996); *In re MTC Electronic Techs. Shareholders Litig.*, 898 F. Supp. 974, 988 (E.D.N.Y. 1995), *decision vacated in irrelevant part on reconsideration*, at 993 F. Supp. 160 (E.D.N.Y. 1997); *In re Kendall Square Research Corp. Sec. Litig.*, 868 F. Supp 26, 28-29 (D. Mass. 1994); *Vosgerichian v. Commodore International*, 862 F. Supp 1371, 1377-78 (E.D. Pa. 1994).

[24] 15 U.S.C. § 77k(a)(4).

[25] 15 U.S.C. § 77g(a).

"Safe Harbor"

In the Concept Release, the Board notes that ACAP, when recommending that the PCAOB undertake the current standard-setting initiative, stated that the requirement "should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm."[26] The Concept Release also cites ACAP's assertion that "[t]his language is similar to safe harbor language the SEC promulgated in its rulemaking pursuant to Sarbanes-Oxley's Section 407 for audit committee financial experts."[27] The inclusion of these excerpts from the ACAP report in the Concept Release implies that the Board and ACAP think that the Securities and Exchange Commission might be amenable to creating a similar safe harbor provision to avoid imputing any additional liability to the engagement partner who signs an audit report. We think there are significant questions as to whether an effective safe harbor could be designed to shield engagement partners from liability to which they might otherwise be subject under the federal securities laws because they signed an audit report.

With respect to Section 10(b), it is not at all clear that the SEC would be inclined to create a safe harbor provision to exempt a class of potential defendants from liability under the antifraud provisions of the securities laws. For the SEC to do so would seem to run against its own recent arguments urging courts to adopt a broad construction of primary liability for secondary actors under Section 10(b) and Rule 10b-5.[28] While the SEC has from time to time adopted rules deeming certain information not to be "filed" for purposes of liability under Section 18 of the Exchange Act, it typically emphasizes that such exemptions do not excuse an actor from 10b-5 liability.[29]

With respect to potential liability under Section 11, the SEC's rationale for adopting a safe harbor for audit committee financial experts under Section 407 would, if anything, cut against creating a safe harbor for engagement partners who sign audit reports in their own names. The SEC explained that the purpose of the Item 407 safe harbor provision was to:

> clarif[y] that any information in a registration statement reviewed by the audit committee financial expert is not "expertised" unless such person is acting in the capacity of some other type of traditionally recognized expert. Similarly, because

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[26] Concept Release at 4.

[27] *Id.* at 4 n.10.

[28] In its Amicus Brief in a pending case in the Second Circuit, *Pacific Management Company v. Mayer Brown LLP*, No. 09-1619-cv (2d Cir. August 7, 2009), the SEC stated, "In the Commission's view, a person . . . creates a statement in this context if the statement is written or spoken by him, or if he provides the false or misleading information that another person then puts in the statement, or if he allows the statement to be attributed to him." *Id.* at 7. In addition, the SEC argued that "[a]n attribution requirement, by allowing a person who created a false or misleading statement to escape primary liability because that person acted anonymously or in another person's name, would shield significant misconduct from liability." *Id.* at 14. In this case, plaintiffs purchased bonds and stocks issued by Refco and are suing Refco's law firm and an individual partner at that firm under Section 10(b) for allegedly false and misleading statements contained in company documents.

[29] *See e.g.*, Regulation S-K, Item 407(d), Instructions to Item 407(d), 17 C.F.R. § 229.407(d); Regulation S-K, Item 407(e), Instructions to Item 407(e)(5), 17 C.F.R. § 229.407(e); Regulation S-T, Rule 406T(b), 17 C.F.R. § 232.406T(b).

> the audit committee financial expert is not an expert for purposes of Section 11, he or she is not subject to a higher level of due diligence with respect to any portion of the registration statement as a result of his or her designation or identification as an audit committee financial expert.[30]

The SEC also stated, "We find no support in the Sarbanes-Oxley Act or in related legislative history that Congress intended to change the duties, obligations or liability of any audit committee member, including the audit committee financial expert, through [Section 407]."[31] Unlike the audit committee financial expert, accountants are expressly identified as experts under Section 11 with respect to audited financial statements contained in a registration statement.

Conclusion

PwC respectfully submits that a requirement that an engagement partner sign the audit report in his or her name in addition to the name of the firm will not achieve its stated objective of improved audit quality. It will not increase individual accountability or transparency beyond already existing professional standards and mechanisms for ensuring that auditors abide by those standards, and the requirement could have unintended consequences. Without any corresponding benefit to audit quality, this proposal creates an unacceptable risk of subjecting engagement partners to substantially increased litigation risk. Therefore, PricewaterhouseCoopers does not support an engagement partner signature requirement.

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or Board may have. Please contact Mike Gallagher (973-236-4328) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

[30] Securities Act Release No. 8177, Exchange Act Release No. 47235, 68 Fed. Reg. 5110, 5117 (footnote omitted).

[31] *Id.* at 5116.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

11 September 2009

Our ref: ICAEW Rep XX/09

Office of the Secretary
PCAOB
1666 K Street,
N.W.
Washington
D. C. 20006-2803.

By email: *PCAOB Rulemaking Docket No. 029*

Dear Sir

PCAOB RELEASE NO 2009 - 005: CONCEPT RELEASE ON REQUIRING THE ENGAGEMENT PARTNER TO SIGN THE AUDIT REPORT

The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on the PCAOB's Concept Release on requiring the engagement partner to sign the audit report.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

Our comments have been prepared with the help of our many members working around the world who have detailed knowledge and practical experience of US, EU and other regulatory regimes.

When changes were proposed in the UK requiring audit engagement partners to sign audit reports in their own name on behalf of the firm, auditors and others expressed considerable concern, not least about the possibility of unintended consequences, and we echo PCAOB member Goelzer's sentiments regarding the need for caution for that reason.

It is early days for the new signing regime in the UK[1] under which an audit cycle has yet to be completed; it is therefore still too early to draw conclusions about the actual and perceived impact that the regime has had on audit quality. To date, most of the issues have been logistical in nature; for example, some smaller fims of UK auditors have experienced challenges in implementing the regime arising from the death, incapacity or unavailability of engagement partners to sign the audit report.

[1] the regime applies to financial years beginning on or after 6 April 2008

Only time will tell if some of the more significant misgivings expressed are well-founded. These include concerns that the change might be misunderstood as representing a change in the liability regime, that inappropriate conclusions might be drawn about audit quality on the basis of the identity of the audit partner alone, and that the regime might make it difficult for high risk businesses to find good auditors.

Our work in this area shows that while regulatory reports show audit quality in the UK to be fundamentally sound, UK investors and others clearly believe that audit quality will be improved by the new regime. While these perceptions matter, measuring improvements in audit quality is not easy and UK opinions continue to differ markedly as to whether audit quality is in fact likely to be improved as a result of the regime change. Firms only appear to be issuing new guidance to deal with logistical challenges associated with the new signing regime rather than their overall audit approach. Thus while auditors may feel differently when required to sign in their own names on behalf of the firm, they admit to no significant changes to the audit procedures conducted. A perception among users that quality has been improved through the partner signature requirement that is not matched by actual changes in auditor behaviour risks widening the expectation gap, particularly if the expectation is that auditors will be making significant changes to their audit approach to address this requirement in a similar manner to the significant changes made by many companies when the CEO and CFO certification requirements were introduced by Section 302 of the Sarbanes Oxley Act 2002.

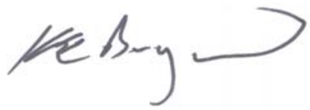
We are not experts in the vexed area of US auditor liability. The UK auditor liability regime, and the regime in other European countries differs significantly to that in the US. We do not therefore presume to opine on that issue, and we look forward to reading the comments of those better placed than us to do so.

Comment by the PCAOB on the liability issue in any standard exposed would carry some weight, but we find it difficult to envisage how any proposals that admit to the possibility that the liability of engagement partners will be altered as a result of their signing the audit report, are likely to gain acceptance. A linch pin of the UK approach is the safe harbour provided in the legislation requiring the identification of the engagement partner. If no such safe harbour can be provided, the PCAOB may have to have to find other methods of improving audit quality and transparency. Such methods might include developing some other mechanism for identifying the engagement partner without requiring him or her to sign the audit report.

We are encouraged that the PCAOB is addressing engagement partner signatures on audit reports and we consider a Concept Release to be the right starting point. The ICAEW has been at the forefront of this debate in the UK, through the work of the Audit Quality Forum and its publication *Identifying the Audit Partner*, and we are grateful for the PCAOB's recognition of this work.

We are pleased to provide answers to the PCAOB's questions below and I am happy to discuss any of the points raised in this response.

Yours faithfully



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Questions and Answers

1. Would requiring the engagement partner to sign the audit report enhance audit quality and investor protection?

and

2. Would such a requirement improve the engagement partner's focus on his or her existing responsibilities? The Board is particularly interested in any empirical data or other research that commenters can provide.

Common sense suggests that some may pay more attention to detail and underlying documentation when their own names appear on a document. But we have no evidence, anecdotal or otherwise, to suggest that the conduct of audits has changed or will change as a result of the introduction of the regime requiring audit partners to sign audit reports in their own names on behalf of the firm in the UK. Other than dealing with logistical matters associated with the new regime, audit firms do not appear to have issued new guidance on the conduct of audits.

Requiring the engagement partner to sign the audit report may enhance the *perception* of audit quality and investor protection in the eyes of some, particularly investors, which is important, although this perception may widen the expectation gap. Certainly an expectation that auditors will undertake significant additional procedures as a result of the change in the same way that companies implemented new procedures following the introduction of the CEO and CFO certification requirement under Section 302 of the Sarbanes Oxley Act would be undesirable.

3. Would disclosure of the engagement partner's name in the report serve the same purpose as a signature requirement, or is the act of signing itself important to promote accountability?

Disclosure of the engagement partner’s name in the report, or elsewhere, would serve the same purpose as a signature requirement, but probably not as well. The act of signing is likely to promote a greater sense and appearance of accountability, particularly to investors. Disclosure of the engagement partner’s name might be helpful if signatures were not deemed possible as a result of the liability regime.

4. Would increased transparency about the identity of the engagement partner be useful to investors, audit committees, and others?

and

5. Would such information allow users of audit reports to better evaluate or predict the quality of a particular audit? Could increased transparency lead to inaccurate conclusions about audit quality under some circumstances? We are particularly interested in any empirical data or other research that commenters can provide.

Increased transparency about the identity of the engagement partner is certainly desired by investors and others (although we would be alarmed if audit committees were not aware of the identity of engagement partners) but it is critical (certainly in the UK) that all concerned understand that the engagement partner is signing for and on behalf of the firm, not in a personal capacity, and that the liability regime is unchanged. While users may believe that knowing the identity of the audit engagement partner may help them evaluate or predict the quality of an audit, this information alone may lead them to draw erroneous conclusions. Users' expectations regarding the performance of a particular engagement partner are not always going to be met.

6. Are there potential unintended consequences of requiring the engagement partner to sign the audit report that the Board should be aware of?

Yes. Some smaller fims of UK auditors have experienced challenges in implementing the regime arising from the death, incapacity or unavailability of engagement partners to sign the audit report. Such issues might be addressed as FAQs or similar in any exposure draft.

Other *potential* consequences include:

- the change being misunderstood as representing a change in the liability regime
- inappropriate conclusions being drawn about audit quality on the basis of the identity of the audit partner alone
- making it difficult for high risk businesses to find good auditors
- signatures exposing partners and their families to unacceptable personal risks
- bright young people being deterred from entering the profession in the first place, and
- creating an expectation amongst users that one individual is responsible for the audit opinion and the decisions on the audit whereas in practice audit quality is not solely the responsibility of the lead partner, but that of everyone who works on the audit and, more importantly, the firm.

7. The EU's Eighth Directive requires a natural person to sign the audit report, but provides that "[i]n exceptional circumstances, Member States may provide that this signature does not need to be disclosed to the public if such disclosure could lead to an imminent, significant threat to the personal security of any person." If the Board adopts an engagement partner signature requirement, is a similar exception necessary? If so, under what circumstances should it be available?

The purpose of this exception is largely to protect the engagement partner and his or her family from threats of violence or intimidation that occasionally emanate from extremists associated with some single interest pressure groups. A recent example in the UK involved Huntingdon Life Sciences where animal rights activists carried out an aggressive campaign against the company and its advisors, including partners and employees of the company's audit firm.

It is important to note that this legislation has been enacted in the UK such that a strong case has to be made for the exception to apply, the mere possibility of a threat to personal security will not generally suffice because the risk needs to be serious, and a resolution authorising non-publication needs to be passed by the company.

8. What effect, if any, would a signature requirement have on an engagement partner's potential liability in private litigation? Would it lead to an unwarranted increase in private liability? Would it affect an engagement partner's potential liability under provisions of the federal securities laws other than Section 10(b) of the Securities Exchange Act, such as Section 11 of the Securities Act of 1933? Would it affect an engagement partner's potential liability under state law?

and

9. Are there steps the Board could or should take to mitigate the likelihood of increasing an engagement partner's potential liability in private litigation?

We do not presume to comment on this complex area of US legislation and we look forward to reading the comments of those better placed than us to do so but we offer the following observations:

- S504 (3) of the Companies Act 1985 provides some protection to UK auditors against personal civil liability with the use of the following form of words which contain a term of art commonly used in UK legislation

  The senior statutory auditor is not, by reason of being named or identified as senior statutory auditor or by reason of his having signed the auditor's report, subject to any civil liability to which he would not otherwise be subject.

- the liability regime in many continental European countries is such that the auditor's liability is determined or capped by statute in any case.

10. Some commenters on the ACAP Report who expressed concern about liability suggested that a safe harbor provision accompany any signature requirement. While the Board has no authority to create a safe harbour from private liability, it could, for example, undertake to define the engagement partner's responsibilities more clearly in PCAOB standards. Would such a standard-setting project be appropriate?

The responsibilities of the engagement partner are broad, not easy to define, scattered throughout auditing standards and definitions are in any case double edged. If the purpose of the exercise were to provide some comfort or protection to engagement partners in the place of safe harbour, we think it unlikely to succeed. While defining or describing the engagement partner's responsibility in standards might help in defending an engagement partner once litigation has commenced, it is inevitable that litigants would seek, sometimes successfully, to interpret that definition aggressively against engagement partners.

11. If the Board adopts an engagement partner signature requirement, would other PCAOB standards, outside of AU sec. 508 and Auditing Standard No. 5, need to be amended?

We believe that changes should be made to paragraph 9 of AU 311 *Planning and Supervision* to make it clear that the engagement letter should explain the consultation process that the firm has in place, including the internal consultation that firms may undertake in arriving at their audit judgement. The engagement letter should also clarify that claims can only be brought against the firm, as that is the entity making the report, not the audit engagement partner.

12. Should the Board only require the engagement partner's signature as it relates to the current year's audit? If so, how should the Board do so? For example, should firms be permitted to add an explanatory paragraph in the report that states that the engagement partner's signature relates only to the current year?

and

13. If a signature requirement is adopted, should a principal auditor that makes reference to another auditor also be required to make reference to the other engagement partner? Would an engagement partner at the principal auditor be less willing to assume responsibility for work performed by another firm under AU sec. 543?

These complex areas are not addressed in the UK as the situations described do not arise. However, we observe that simplicity and consistency are virtues when introducing potentially contentious changes, but that they sometimes conflict and have unintended consequences. We look forward to the PCAOB's proposals in these areas.

Only requiring the engagement partner's signature as it relates to the current year's audit is simple but inconsistent with reporting requirements where the audit report covers all periods presented. This may lead to confusion for users. If the requirement is extended to all periods presented then transitional arrangements are likely to be necessary.

Consistency in references to other auditors in audit reports is desirable but forcing such disclosure when the other auditor operates in a regime which does not have similar disclosure requirements may cause conflict.

14. Auditors are not required to issue a report on a review of interim financial information, though AU sec. 722, *Interim Financial Information*, imposes requirements on the form of such a report in the event one is issued. Should the engagement partner be required to sign a report on interim financial information if the firm issues one?

The PCAOB may wish to consider deferring this question in order to ensure that the main objective of identifying the audit partner in the audit report is achieved without delay. The issue of interims can be revisited at a later date.

15. Would requiring the engagement partner to sign the audit report make other changes to the standard audit report necessary?

We are not aware that auditors in Europe have found it necessary to insert caveats, disclaimers or other modifications to the standard audit report as a result of identifying the audit partner in the audit report. Any additional wording is likely to amount to an unhelpful (boilerplate) distraction.

16. If the Board adopts a signature requirement, should it specify a form of the engagement partner's signature? For example, should the engagement partner sign on behalf of the firm and then "by" the engagement partner?

The engagement partner should sign for and on behalf of the firm. Another signature would imply that the responsibility for the audit opinion is somehow divided between the firm and the engagement partner. If there is no intention to change the liability of the engagement partner this is critical.

UHY LLP
Certified Public Accountants

September 11, 2009

Mr. J. Gordon Seymour
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

RE: PCAOB Rulemaking Docket No. 029 – *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*

Dear Mr. Seymour:

This letter is in response to the Public Company Accounting Oversight Board's release to solicit public comment on whether it should require the auditor with final responsibility for the audit to sign the audit report as set forth in the PCAOB Rulemaking Docket No. 029 – *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*.

Background

UHY LLP is a firm of certified public accountants that has 112 partners that utilizes staff and administrative resources of approximately 1100 individuals through an alternative practice structure arrangement with an associated entity, UHY Advisors, Inc. and its operating subsidiaries. Our audit clients currently include 73 issuer audit clients.

Overall Comments

Quite frankly, we find the notion of requiring the engagement partner's signature on the audit report to be an ill-considered proposal that is lacking in underlying research. The idea apparently came from an individual in the investment community who testified at the Treasury Department's hearings. His testimony has been taken to underlie the view that having the engagement partner sign the report will somehow ". . . foster greater accountability . . . increase transparency, and . . . improve audit quality. . ." In its report, the Treasury Department quoted both the views of the individual who testified and that individual's same views in a paper he authored. The individual cited no research to support his views—classic argument by assertion. Others who have commented including Board members seem to agree with the unsupported analogy to CEO and CFO certifications required by SOX legislation but again confirm that there has been absolutely no research on the issue the Board has chosen to address.

We fear the PCAOB members are confusing "certifications" of facts—which can be done by responsible individuals—with "opinions" on financial statements—which can only be expressed by accounting firms. If the proposal were as simple as the Board seems to think it is, it would not be worth comment. However, underlying this proposal is a basic issue—practice as a firm vs. practice as an individual.

Long ago, as quality control standards emerged, audits were identified as being the type of engagement that individuals could not perform as individuals but, indeed, required resources and support of a firm to accomplish. (Those few remaining sole practitioners who perform audits must nevertheless identify themselves as a firm and obtain firm permits to practice in most jurisdictions.)

Today, engagement teams are made up of a team or teams of firm personnel with diverse backgrounds and experience—all under the ultimate direction of the engagement partner. Everyone on the audit engagement team understands that it is the engagement partner who has the ultimate responsibility—on behalf of the firm—to ensure that the audit has been performed according to the appropriate auditing standards and that the financial statements upon which the firm is expressing an opinion have been prepared in accordance with the generally accepted accounting principles so identified in the report. Many others have responsibilities—concurring review partner and other partners and staff who have contributed to the engagement—but it is the engagement partner with the ultimate responsibility to ensure that a high quality audit has been performed. Signing to that effect is already part of the review and approval documentation process that is mandated by auditing standards for public and nonpublic companies in the US and internationally.

Major Concern

So why is there so much concern about a signature of the engagement partner? We will explain this below in a series of questions that the PCAOB must answer, now or as they develop in practice. All of these questions will have to be answered by the PCAOB if the proposed requirement comes to fruition:

Situation 1

The financial statements present balance sheets for two years and income statements for three years as is the general requirement for public companies. The firm and the engagement partner have not changed for four years.

Is the engagement partner required to sign the financial statements only for the current year or for all years presented?

In this instance, since the engagement partner has been the same for all years, it really does not matter because that engagement partner would be in a position to sign both on behalf of the firm and as the engagement partner for all years presented.

Situation 2

The facts are the same except that the engagement partner is new this year.

Is the engagement partner required to sign the financial statements only for the current year or for all years presented?

In this instance, the engagement partner could sign on behalf of the firm for all periods presented but could only sign as engagement partner for the most current year.

Would that suffice or would those who were engagement partners in prior years be required to sign the currently issued financial statements?

If engagement partner signatures for prior years are required, many obstacles are present:

What if the former engagement partner is unavailable to sign because that individual is:

- On vacation in a remote location
- Retired from the firm and no longer practicing public accounting
- Retired from the firm, no longer practicing public accounting, and no longer maintaining a valid CPA license in any jurisdiction
- No longer with the firm, having joined another PCAOB registered firm that refuses to allow that partner to associate his name with his former firm
- No longer with the firm and now practicing with a firm that is not PCAOB registered and not insured for public company practice
- No longer with the firm and currently employed by the SEC or the PCAOB
- Incapacitated
- Deceased

Who will sign as engagement partner for those earlier years?

Situation 3

The facts are the same except that it is a first year engagement for the firm and, as a consequence, the engagement partner's first year on the engagement.

Is the engagement partner required to sign the financial statements only for the current year or for all years presented?

In this instance, the engagement partner could sign on behalf of the firm and as engagement partner for only the current year. Assuming that the predecessor firm had no reason to object, the current audit firm's opinion would refer to the other firm as the predecessor auditor and characterize the nature of its opinion.

- Who would sign as the engagement partner on behalf of the predecessor firm for those prior years? Would it be the former engagement partner of the former firm?
- What if there are restatements that the former firm agrees with but the former engagement partner does not?
- What if the predecessor firm merges or disbands and the former engagement partner is no longer with the surviving firm?
- What if the former engagement partner with the other firm is no longer available for any one of the reasons previously cited in Situation 2?

Before imposing a signing requirement, the PCAOB needs to address the issues in Situations 2 and 3 and have solutions so as not to cause audit firms to withhold reports until these questions are answered.

We fear that in answering the above questions and the endless permutations of such questions, the PCAOB will be misdirecting engagement partner attention from the quality of the audit performed to understanding what will become a new rule book of who must sign as engagement partner under the endless variety of circumstances likely to develop.

Response to PCAOB'S QUESTIONS

In the following section we have responded to the questions posed in the PCAOB's request for information.

1. **Would requiring the engagement partner to sign the audit report enhance audit quality and investor protection?**

   We do not believe that such a requirement will have any impact whatsoever on audit quality or investor protection. Rather, it could become an administrative burden that could serve as a distraction from achieving high audit quality by imposing a logistical burden on the engagement team.

   We believe that current requirements established by the Sarbanes Oxley Act of 2002 are far better designed to increase an auditor's sense of accountability to users. The PCAOB's current inspection process of routinely inspecting the work of registered accounting firms does far more toward establishing this goal, has already weeded out some auditors and firms that do not provide quality audits, and will continue to do so.

2. **Would such a requirement improve the engagement partner's focus on his or her existing responsibilities? The Board is particularly interested in any empirical data or other research that commentators can provide.**

   Engagement partners are well aware of their existing responsibilies on an audit of a public company. No requirement for a signature or signatures should have any effect on the partner's focus. Unquestionably, issuing a report on a public company is the most critical responsibility of an engagement partner in a PCAOB registered accounting firm. Engagement partners know their responsibilities and take those responsibilities very seriously.

   We are unaware of any studies that have addressed engagement partners adding personal signatures to audit reports signed by the audit firm.

   We would caution that a personal signature by an audit partner on an opinion of that partner's firm is quite different than a CEO or CFO's certification of facts. In the former case, you are adding a mere signature to an opinion of a firm. In the latter, you are holding the CEO or CFO responsible for knowledge of facts. Also, keep in mind that the CEO/CFO certification became an element of the SOX legislation to correct a problem that the SEC enforcement personnel encountered regularly—CEO and CFO denial of responsibility and/or participation in the financial reporting process. No such problem has emerged with engagement partners denying that role and seeking to evade responsibility.

Everyone who needs to know the engagement partner knows who he or she is. Very often, the engagement partner attends the annual meeting of shareholders. The engagement partner's role is not a secret. Is there anyone who has read anything about Enron who does not know of David Duncan's role as engagement partner? Would Enron's investors have been served better had he signed his name along with his firm's name?

3. **Would disclosure of the engagement partner's name in the report serve the same purpose as a signature requirement, or is the act of signing itself important to promote accountability?**

Neither the signature nor the disclosure should have any effect on the accountability of the engagement partner. The engagement partner is known to all in the firm, to all at the client and to its audit committee and to its board of directors. Again, very often, the engagement partner is introduced at the shareholders' meeting.

4. **Would increased transparency about the identity of the engagement partner be useful to investors, audit committees, and others?**

If the audit committee does not know the identity of the engagement partner, the committee has failed in its purpose and no amount of disclosure can remediate that condition. Investors and other users will invariably state that they would like that information and somehow would make use of it. However, those so responding fail to realize that state confidentiality laws, ethics requirements, and federal securities laws preclude the engagement partner and the team from having free dialogue with anyone who might call with a question about a client's audit. Any engagement partner who engaged in such conversation other than in the most general of terms would be guilty at a minimum of violating client confidentiality and worse could be guilty of providing insider information.

With regard to Audit Committees, more questions are in order. For example, would audit committee members be more or less likely to approve the appointment of an independent CPA firm if the partner assigned to the engagement rarely issued an adverse or qualified opinion? What about opinions with explanatory paragraphs, such as a going concern paragraph? Would an engagement partner who only issued unqualified audit reports be perceived as "easier" or "less than thorough"?

5. **Would such information allow users of audit reports to better evaluate or predict the quality of a particular audit? Could increased transparency lead to inaccurate conclusions about audit quality under some circumstances? We are particularly interested in any empirical data or other research that commenters can provide.**

With time, some would assemble statistics on engagement partners and attempt to interpret their meaning. While we doubt partners statistics would be followed like major league baseball players, there would be some who would draw conclusions from those that became available. The concern we would have is that knowing the number or type of reports that an engagement partner has issued over time means little without interpretation.

A partner that has issued 20 opinions on 20 shell companies has not amassed the same experience as one who has issued 20 opinions on 20 operating companies; yet, the statistics would be identical.

A partner that has issued only clean opinions may appear to be beyond reproach as one who has only pristine clients. Or, is that a signal that the partner may not subject clients to the healthy skepticism required? Should a partner have some "going concern" opinions in the record book to maintain credibility?

Is a company seeking a new auditor going to ask for the engagement partner with only clean opinions in the record book? Is an engagement partner with a record of "going concern" opinion modifications going to be asked not to be the engagement partner on new engagements or at partner rotation time? Is having once issued a "going concern" report going to eliminate the engagement partner from ever being assigned to another major public company engagement?

Section 303 of SOX makes it unlawful for management and others to attempt to unduly influence the audit firm and the engagement team—especially when it involves the assignments of audit partners. Will providing management and others with the wherewithal to calculate the engagement partner's statistics tempt some to exert such influence when it comes to obtaining the new engagement partner – favoring the one with only "clean" opinions over the one with "going concern" modifications? How will the PCAOB be able to police Section 303 to insure that the statistics are not used as the mere excuse to exercise undue influence and avoid those engagement partners viewed to be "tough markers?"

6. **Are there potential unintended consequences of requiring the engagement partner to sign the audit report that the Board should be aware of?**

Might the same behavioral forces, as is postulated, that would cause an engagement partner to feel "more responsible" for audit report also potentially cause the partners best suited for difficult audits to, instead, shy away from the same for fear of besmirching their names and records?

Another unintended consequence is the high probability of the press or of a user's calling the engagement partner directly to obtain confidential or protected insider information. Providing any information beyond that contained in the audit opinion would be tantamount to providing insider information. When an engagement partner states the prohibition on providing additional information, the media and the investing public generally see this as "no comment." This will only adversely affect the public's views of the auditing profession.

7. **The EU's Eight Directive requires a natural person to sign the audit report, but provides that '[i]n exceptional circumstances, Member States may provide that this signature does not need to be disclosed to the public if such disclosure could lead to imminent, significant threat to the personal security of any person." If the Board adopts an engagement partner signature requirement, is a similar exception necessary? If so, under what circumstances should it be available?**

We have no direct knowledge of the reasons leading the EU to conclude as it did about an exemption for personal security of any person. We would however, suggest that the PCAOB contact that international body in Brussels to obtain details of its legislative intent in making the rule as it did.

On the anniversary of the attack on the World Trade Center, it is not difficult to postulate how anyone with a perceived important role in world finance and a detailed knowledge of a large international corporation, especially one with defense department or homeland security contracts, could become a target. An audit engagement partner who is identified to all by a PCAOB mandated signature on the audit report could become the target for those bent on domestic or international terrorism.

Mandated disclosure of the name of the engagement partner coupled with on-line license look up features of the various state boards of accountancy would very often provide all the necessary information—name, address, and phone number—for any domestic or international terrorist bent on doing harm in the form of assassination or kidnapping to the engagement partner and that partner's family.

While kidnapping of senior executives and their family members is not yet commonplace in the United States, we need only look to our southern border where it has become commonplace. We only need to look to the Rubicon and Young advertising executive who was killed outside his New Jersey home a few years ago.

8. **What effect, if any, would a signature requirement have on an engagement partner's potential liability in private litigation? Would it lead to an unwarranted increase in private liability? Would it affect an engagement partner's potential liability under provisions of the federal securities laws other than Section 10(b) of the Securities Exchange Act, such as Section 11 of the Securities Act of 1933? Would it affect an engagement partner's potential liability under state law?**

   See Number 10 below.

9. **Are there steps the Board could or should take to mitigate the likelihood of increasing an engagement partner's potential liability in private litigation?**

   See Number 10 below.

10. **Some commenters on the ACAP Report who expressed concern about liability suggested that a safe harbor provision accompany any signature requirement. While the Board has no authority to create a safe harbor from private liability, it could, for example, undertake to define the engagement partner's responsibilities more clearly in the PCAOB standards. Would such a standard-setting project be appropriate?**

    We do not practice law and, therefore, have no internal expertise to enable us to express a professional view on questions 8, 9, and 10. That said, we do believe that the PCAOB could not impose a personal signature requirement where there was none before without there being a myriad of new legal issues that arise from that very action. And, we would expect that questions 8, 9, and 10 simply do not have crisp answers—even from the experts in accountants' legal liability.

We do believe that the signature or disclosure requirement you propose would increase the litigation exposure to individuals in ways that only members of the litigation bar can evaluate properly.

11. **If the Board adopts an engagement partner signature requirement, would other PCAOB standards, outside AU sec. 508 and Auditing Standard No. 5, need to be amended?**

    This depends entirely on what the Board decides to require in the way of signature and/or disclosure.

12. **Should the Board only require the engagement partner's signature as it relates to the current year's audit? If so, how should the Board do so? For example, should firms be permitted to add an explanatory paragraph in the report that states the engagement partner's signature relates only to current year?**

    See the discussion on under "Major Concern" beginning on page 2.

13. **If a signature requirement is adopted, should a principal auditor that makes reference to another auditor also be required to make reference to the other engagement partner? Would an engagement partner at the principal auditor be less willing to assume responsibility for work performed by another firm under AU sec. 543?**

    This is but another area of complexity that the PCAOB will have to address in detail, and with increasing detailed requirements come additional audit costs and reasons for report delays. We would suggest that there are literally dozens of such questions that have no correct answer and will simply require a rules-based approach. Once you separate the firm responsibility from that of the engagement partner, no end of questions arise and as with any arbitrary rules they only have arbitrary answers.

14. Auditors are not required to issue a report on a review of interim financial information, though AU sec. 722, Interim Financial Information, imposes requirements on the form of such a report in the event one is issued. Should the engagement partner be required to sign a report on interim financial information if the firm issues one?

We believe the proposed requirement to be unnecessary for the reasons stated. Should the board require engagement partner signature, in those rare situations where reports are issued on interim reviews, we would see no reason for different signing requirements at interim from those at year end.

15. Would requiring the engagement partner to sign the audit report make other changes to the standard audit report necessary?

We believe the proposed requirement to be unnecessary for the reasons stated. That said, we believe the Board can make this as simple or as complex as it chooses. We do not believe that the existing audit report variations that currently exist should be altered in any way. However, complexities that make obtaining prior year engagement partner signatures impossible will inevitably lead to report modifications for those conditions. This will neither enhance user understanding nor the usefulness of the audit report. Rather, it will add unnecessary complexity and decrease user understanding.

16. If the Board adopts a signature requirement, should it specify a form of the engagement partner's signature? For example, should the engagement partner sign on behalf of the firm and then "by" the engagement partner?

Should there be an engagement partner signature requirement, it should be as simple as possible—for example:

UHY LLP
by /s/ Paul Rohan

If there is a need for the partner to sign as well as the firm, would it not also be useful for the many users who crave this information to identify that the engagement partner is a CPA (or other appropriate designation such as CA or FCA with foreign firms) and identify the individual's license jurisdiction and number. This would enable a user to check current status with state board online services and, in some jurisdictions, be able to identify whether there has been any past disciplinary actions taken by the state board or others. Thus, it might appear as follows:

UHY LLP
by /s/ Paul Rohan, CPA (Connecticut License Number 2870)

Historical Note

Such signature practices were commonplace through the 1940's before all accounting firms were required to be made up of CPA's. This was a subtle but allowed bit of advertising that the report was being signed by a CPA when that was not yet a universal requirement. The State of Connecticut required such a signature on audit reports on municipalities into the mid 1970's. Then it abandoned the requirement as an archaic practice. A similar requirement existed in New York State for professional corporations until the State legislature changed the law in the 1970's having concluded that it was an unnecessary ministerial practice. (One of our partners in our Albany office still have the pen Governor Cuomo used to sign that bill.)

Final Comment

If the PCAOB truly believes that the engagement partner signature will "foster greater accountability,...increase transparency, and ... improve audit quality" of the reports issued by registered accounting firms on public company audit clients, we suggest that the PCAOB apply similar logic to its inspection reports and have the individual inspection leaders personally sign the PCAOB inspection reports on the firms that they inspect. We would suggest all arguments for and against signature apply equally to both situations.

Should you have any questions, please feel free to contact me at (203) 401-2101.

Very truly yours,

Paul Rohan

Paul Rohan
Partner
Director of Financial Reporting &
Quality Control

From: Stephen Zeff [mailto:sazeff@rice.edu]
Sent: Wednesday, July 29, 2009 3:28 PM
To: Comments
Subject: PCAOB Rulemaking Docket Matter No. 29

To the PCAOB,

In regard to PCAOB Rulemaking Docket Matter No. 29, the Concept Release on Requiring the Engagement Partner to Sign the Audit Report, I attach a copy of the letter I wrote to the Advisory Committee on the Auditing Profession on June 25, 2008, in which I strongly endorsed such a move. It is long overdue.

Kind regards.

Stephen Zeff.

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RICE MBA

June 25, 2008

Advisory Committee on the Auditing Profession
Office of Financial Institutions Policy
Room 1418
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Committee Members:

I have been arguing for years, to no avail, that the audit engagement partner should sign the audit report with his or her own name. As you say on pages 4-5 in the Addendum to VI. Firm Structure and Finances of your draft report, this has long been the practice in Germany. It has also long been the practice in Australia.

With the identity of the engagement partner known, it is possible for interested parties to correspond with the signatory on particular auditing questions. Recently, I have conducted such correspondence in Australia and have received useful replies from engagement partners.

There is no justification for the anonymity that shrouds the identity of the engagement partner in the United States.

The association of the engagement partner by name with the audit report should serve to lift his or her standard of professionalism and dedication to principle.

I note the recommendation on page VII:14 of the Committee's draft report that "the name(s) of the senior auditing partner(s) staffed on the engagement" should be disclosed in the company proxy statement. I urge the Advisory Committee to recommend that the name(s) be disclosed in the signature to the audit report in the company annual report to shareholders, which has long been the practice in Germany and Australia. This disclosure should be made widely known to readers of the company annual report and not be confined to the proxy statement.

Sincerely,

SAZ/dj

January 9, 2012

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Via email to comments@pcaobus.org

RE: PCAOB Rulemaking Docket Matter 029: Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits

Dear Board Members:

The Auditing Standards Committee of the Auditing Section of the American Accounting Association is pleased to provide comments on the PCAOB Rulemaking Docket Matter No. 029; PCAOB Release No. 2011-007: *Proposed Rule on Improving the Transparency of Disclosure of Engagement Partner and Certain Other Participants in Audits.*

The views expressed in this letter are those of the members of the Auditing Standards Committee and do not reflect an official position of the American Accounting Association. In addition, the comments reflect the overall consensus view of the Committee, not necessarily the views of every individual member.

We hope that our attached comments and suggestions are helpful and will assist the Board. If the Board has any questions about our input, please feel free to contact our committee chair for any follow-up.

Respectfully submitted,

Auditing Standards Committee
Auditing Section - American Accounting Association

Contributors:
Chair – Keith L. Jones, George Mason University
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General Comments

The Committee commends the PCAOB ("the Board") for addressing the issue of including partner signatures on the audit report. The following section presents a number of specific comments or suggestions, organized along the lines of the questions posed by the Board in the proposed rule.

Here are comments to selected questions in the propose rule:

1. **Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?**

Based on existing research, there is reason to believe that disclosure of the engagement partner's name in the audit report would enhance investor protection. Some countries already (e.g., Australia, Taiwan, Sweden, China) require disclosure of engagement partner names. Using this data, academic researchers conclude that engagement partner characteristics matter to audit quality. For example, Chi et al. (2011) find that an audit partner's pre-client and client-specific experience is associated with higher earnings quality and creditors' perception of higher audit quality. Knechel et al. (2011) show that partner compensation policies affect audit quality in Swedish clients. Hence, investors may find this information useful. Ceteris paribus, investors would prefer more experienced partners whose personal incentives are aligned with those of shareholders.

We note that given the size of the audit market in the United States the disclosure of engagement partner's name may not have as dramatic effect as shown in studies in smaller markets. However, requiring disclosure would provide market participants with potentially useful information as well as data for researchers to assess its usefulness.

2. **Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?**

We believe that both disclosure of the partner's name and his/her signature would be useful. Disclosing the partner's name allows investors to track partner behavior more efficiently over time. Requiring a signature should also have a positive effect on audit quality since it should foster a partner's sense of personal accountability for the audit. Requiring audit partner signature on the audit report is analogous to the SOX 302 requirement that CEOs/CFOs sign the 10-K report. Prior research has established that CEO reputation is a strong disciplining mechanism when it comes to corporate malfeasance. CEO turnover is much more likely in presence of accounting irregularities (Hennes et al. 2006) or restatements (Desai et al. 2006). Job prospects of executives as a result of accounting restatements are much worse due to reputational effects. Similar arguments should apply to audit partners who do sub-par work.

3. **Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?**

We believe that both the audit partner's name and his/her signature are useful in increasing the audit partner's accountability to the audit. While disclosure of the engagement partner's name is informative, it does not clearly bind the engagement partner to the audit work or attest to the quality of the audit. Requiring the engagement partner to sign the audit report enhances accountability and ensures that the engagement partner certify that the audit was performed in accordance with PCAOB standards and to the best of his/her abilities.

6. Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?

Security risks arising out of increased transparency and individual liability can most likely be negated by some form of insurance for audit partners similar to directors and officers (D&O) liability insurance. One possible problem would be the number of direct calls and correspondence an engagement partner may get from shareholders, investors, analysts, or other interested parties. It raises concerns about what the engagement partner may or may not disclose about a company's performance, plans, and financial health outside what is required in the audit report.

7. Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?

We are not experts in this area. However, it seems likely that partners would be subject to frivolous personal lawsuits as a result of their personal association with problematic audits. In addition, the proposed amendments may lead to privacy and security issues for engagement partners. Thus, we do recommend that the Board give consideration to potential negative consequences in these regards.

12. If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

Since Form 2 summarizes all information for a convenient review by investors, we think it is useful to also require disclosure of engagement partner names in Form 2. Behavioral research in accounting suggests that easily accessible information is more effectively and efficiently used by consumers of accounting information.

13. If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

We recommend disclosing audit partner names, whether it is in audit reports or Form 2, preferably in both. In addition, if the Board does this, it will certainly facilitate research into individual engagement partner quality.

14. Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?

Shareholders prefer more timely information. Bryant-Kutcher et al. (2011) find that SOX's requirement of accelerated 10-K filing deadlines increase the value relevance of financial reporting. A similar argument can be applied here. Shareholders need to be notified of any material changes in the company. Audit partner turnover is important information. Studies have shown that the stock market reacts significantly to audit firm turnover. For example, both Dunn (1999) and Eichenseher et al. (1989) find that switching from Big N to non-Big N auditors raise a "red flag" to investors. Knechel et al. (2007) find that firms switching between Big 4 auditors experience significant positive abnormal returns when the successor auditor is an industry specialist and they experience significant negative abnormal returns when the successor auditor is not a specialist. We expect that the market would react similarly to audit partner turnover if the audit partner's identity is publically available. Consistent with our expectation, Fried and Schiff (1981) show that market reacts negatively to CPA switches. Immediate reporting will be particularly useful if an engagement partner resigns or steps down from a particular audit. This would highlight whether the change in engagement partner was due to differences with company officials or disagreements within the audit firm.

20. Would disclosure of off-shoring arrangements (as defined in the release) or any other types of arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangements should be disclosed?

We believe that such disclosure may provide benefits. We recommend additional research on the quality "offshored" audit work. The extent of work as measured by hours (proposed later in the release) would be appropriate.

21. Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?

We believe investors would like to know who participated in the audit besides the engagement partner. The individuals who perform the work largely determine the quality of the work. If investors know the names of the participants, they are better informed to make a judgment regarding the quality of the overall audit. It is also important to know the percentage of hours attributed to other participants so investors can form a judgment regarding the quality of the overall audit. The requirement is particularly relevant for multinational audits where the main auditor relies on other audit firms or their branch offices to conduct a part of the audit process.

In addition, a requirement to disclose other participants in the audit would lead to more research in this area that would inform investors and regulators about the quality of work provided by "other participants."

22. Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?

We believe the proposal is clear in stating the requirement.

23. Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?

We believe the prosed requirements are sufficiently clear. The example is very helpful in describing the requirement. We think it is appropriate to disclose the name of the firm (person) based on contractual relationship because it (he/she) is the entity that is legally liable for the work performed.

24. Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?

Disclosing other participants in the audit would help the audit firms establish and maintain a reputation of audit quality if the firms consistently use other similarly competent firms to help complete the work. Greater disclosure of other participants in the audit improves investor confidence in the audit firm and also creates a mechanism to promote high quality firms.

31. Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% or greater? Would another threshold be more appropriate?

We do not think that disclosing all participants in the audit is necessary. However, investors do not want information overload. The focus should be key participants. We recommend disclosure of names who participate more than 10%. A 10% threshold reflects a balance of supply of sufficient information while avoiding information overload.

32. Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?

Again, we would recommend the 10% threshold, but the manner proposed is appropriate.

33. Are the requirements to disclose the name and country of headquarters' office location of the referred-to firm sufficiently clear and appropriate?

We believe the requirement to disclose the name and country of headquarters’ office location of the referred-to firm is sufficiently clear and appropriate.

35. In situations in which the audit report discloses both the referred-to firm and other participants in the audit, would using different disclosure metrics (e.g., revenue for the referred-to firm and percentage of the total hours in the most recent period's audit for the other firms and persons) create confusion? If so, what should the disclosure requirements be in such situations?

We do not believe the different disclosure metrics would cause any confusion.

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21st November 2011

The Office of the Secretary
PCAOB
1666 K Street, NW
Washington, D.C. 20006-2803
UNITED STATES OF AMERICA

Dear Sirs

PCAOB RULEMAKING DOCKET MATTER NO. 29

AngloGold Ashanti Limited is pleased to provide comments to the Public Company Accounting Oversight Board ("PCAOB") on its proposed rules to implement certain disclosures with respect to improving transparency of public company audits.

AngloGold Ashanti Limited, head quartered in Johannesburg, South Africa, is a global gold company with a portfolio of long life, relatively low cost assets and differing ore body types in key gold producing regions. The company's twenty mining operations are located in ten countries (Argentina, Australia, Brazil, Ghana, Guinea, Mali, Namibia, South Africa, Tanzania and the United States of America) and are supported by extensive exploration activities in a number of countries around the world.

AngloGold Ashanti is listed on the Johannesburg Stock Exchange, the London Stock Exchange, the Australian Stock Exchange, the Ghanaian Stock Exchange, Euronext Paris, Euronext Brussels and the NYSE. As at December 31, 2010, the geographic distribution of our shareholders constituted:

United States	52.60%
South Africa	22.54%
United Kingdom	11.73%
Ghana	2.95%
France	2.35%
Rest of Europe	2.56%
Rest of Americas	1.20%
Rest of the world	4.07%

AngloGold Ashanti Limited prepares primary financial statements utilizing International Financial Reporting Standards, as approved in the English language, by the International Accounting Standards Board for all countries in which it operates, except the United States of America, where it reports in terms of US Generally Accepted Accounting Practice.

AngloGold Ashanti's American depository shares are listed on the NYSE under the symbol "AU". As a well-known seasoned issuer and a foreign private issuer, AngloGold Ashanti files annual reports with the Securities and Exchange Commission on Form 20F and furnishes its home jurisdiction periodic reports with the Securities and Exchange Commission on Form 6K.

AngloGold Ashanti fully supports initiatives which improve communication with investors and provide investors with relevant and reliable information on the company for which they have established an investment or are proposing to enter into an investment.

Although AngloGold Ashanti supports the PCAOB's intentions, we are concerned that audit reports are generally established in home countries in accordance with local laws and jurisdictions and accordingly, amending or prescribing narrative to be used in an audit report may cause confusion amongst investors rather than providing for the transparency with regard to the information.

AngloGold Ashanti believes that it is the company that is responsible for preparing the annual report and the financial statements. It is the company's views that are wanted by and should be reported to investors and other users. Therefore, the company through its board of directors and management should provide information with respect to the auditors and not the auditors.

AngloGold Ashanti believes that the role of the audit committee is to oversee on behalf of the whole board of directors, the integrity of the company's financial affairs. It is also responsible for assessing the independence and effectiveness of the external auditors or for making recommendations on the external auditors to be appointed for the forthcoming year.

AngloGold Ashanti believes that the responsibility for communicating key information to shareholders lies with the company's directors and executive management. The role of an auditor is to review a company's annual report, including its financial statements and provide "a second" opinion on whether they have been properly prepared. The first opinion is provided by the management and directors of the company. AngloGold Ashanti is therefore keen to avoid any reporting structure that undermines directors and management's responsibility for providing key information. AngloGold Ashanti does not believe therefore, that auditors should be placed in a position where they could be perceived to be performing a management role.

Further, AngloGold Ashanti believes that the company is best placed to know what users of annual reports and financial statements are interested in – because it is the directors and management that have direct contact with investors, analysts and other users of the annual report and the financial statements. Auditors do not have such equivalent access to these users. If the company were to provide the information recommended in terms of the proposed rule, rather than the auditors, AngloGold Ashanti believes that this provides a better forum for this information.

Item 16 of Form 20F already requires certain information with respect to audit committees and the principal accountant. AngloGold Ashanti believes that the disclosures that are recommended in terms of the rule would be better placed in the item 16 section of Form 20F or its equivalent in Form 10K rather than in an audit report. The information as disclosed supported by narrative prepared by the audit committee would show that the audit committee has provided effective stewardship of its role with regard to the external auditors that have been appointed.

AngloGold Ashanti therefore proposes that annual reports prepared in accordance with Form 20F or Form 10K, rather than narrative included within an audit report, should include a report by the audit committee setting out the approach they have taken to the discharge of their responsibilities, describing in such terms as they consider appropriate and having regard to the commercial interest of the company concerned. These should include:

- The steps they took and the judgments they made to assess the effectiveness of the audit.
- The policies that they adopted to avoid the independence of the company's auditors being compromised.
- The process by which they reached their recommendation to appoint or re-appoint as the case may be, the company's external auditors and the reasons for the recommendations thereof.

We provide below our responses to the PCAOB's specific requests for comments. For ease of reference we have re-produced the text of PCAOB's requests for comments, in bold face typed below, followed by our comments:

1. **Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?**

   It is debatable whether disclosure of the engagement partner's name in the audit report enhances investor protection but such disclosure is already mandatory in South Africa in terms of our Stock Exchange Listing Regulations, as well as other international jurisdictions.

2. **Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?**

   Disclosing the name of the engagement partner may appear to investors an increase in the engagement partner's sense of accountability.

   Requiring the engagement partner's signature instead of the name of the firm would detract from the position that the audit firm has been appointed by the Audit Committee to undertake the external independent accountant's review of the financial statements and thus would not necessarily increase the sense of the accountability.

3. **Does the proposed approach reflect the appropriate balance between the engagement partner/s role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?**

   An approach to reflect the name of the firm responsible for the audit and signed as such provides the correct description of the appointment of a firm rather than an individual by the audit committee. Naming the individual assigned by the firm is already required in ma~~y~~n international jurisdictions. It follows a similar format that the financial statements have been approved by a board of directors but in the South African context are signed specifically on behalf of the board of directors by designated directors that have been approved to sign as such by the board.

4. Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?

The proposed disclosure by adding a sentence to the audit report stating "the engagement partner responsible for the audit for the period ended" is irrelevant and only adds to confusion in an audit report. The name of the audit partner should be included in the signature area in a format as set out below.

Name of Firm:
Name of Partner:
Qualification:
Town:
Date:

5. Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?

As stated above, additional sentences in an audit report detract from the audit report's intention which is to opine on the preparation of the financial statements by management. Thus, the proposed disclosure is not an adequate description. When opinions are dual-dated, then the initial date would maintain the original partner's name and the second date should state the alternate to the second partner's name as set out below.

Name of Firm:	Name of Firm:
Name of Partner:	Name of Partner:
Qualification:	Qualification:
Town:	Town:
Date:	Date:

6. Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?

The proposed amendments may create particular security risks depending on the jurisdiction that the audit firm and the audit partner reside. It has for several years been a requirement in South Africa to state partner details as well as personal information concerning directors. It is also a requirement in the United States in terms of compensation disclosures to name specific directors and their level of compensation which initially was thought would increase a security risk for those individuals.

Any area which increases transparency for individuals who operate in a corporate role will always have a potential consequential increase in security risks but as such this should be considered in a specific jurisdiction where a home country rule may exempt or disallow such disclosure.

7. **Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?**

   AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

8. **What are the implications of the proposed disclosure rule for private liability under Section 10(b)?**

   AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

9. **Would the disclosure of the engagement partner's identity affect Section 11 liability? If so, what should the Board/s approach be?**

   AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

10. **Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider?**

    AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

11. **Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?**

    AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

12. **If the Board adopts the proposed requirement that the audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?**

    AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

13. **If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?**

    AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

14. **Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?**

AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

15. **A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?**

AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

16. **Is it sufficiently clear who the disclosure would apply to? If not, how could this be made clear?**

AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

17. **Is it appropriate not to require disclosure of the individual who performed the EQR? If not, should disclosure of the engagement quality reviewer be required when the EQR is performed by an individual outside the accounting firm issuing the audit report or should the disclosure be required in all cases?**

AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

18. **Is it appropriate not to require disclosure of the person that performed the Appendix K review?**

AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

19. **Is it appropriate not to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor?**

If it is deemed relevant to users of financial statements, this information would be more appropriately referred to in a report of the audit committee specifying the matters they considered when confirming or otherwise determining the independent public accountants appointed to perform the audit.

20. Would disclosure of off-shoring arrangements (as defined in the release) or any other types of arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangement should be disclosed?

It is the responsibility of the audit committee to determine, to select and approve the appointment of the independent accountant tasked with auditing the financial statements of the company. Accordingly it is the audit committee's role to determine the level of work and to approve the other audit firms that the lead engagement firm may select in assisting them to review certain work.

This role of the audit committee exists regardless as to whether they are an independent public accountant firm for whom the lead engagement firm assumes responsibility pursuant to AU Sec.543 or whether it is an independent public accounting firm not implied by the lead engagement firm that performed audit procedures on the most recent financial statements.

Accordingly disclosure of off-shore arrangements should not be made within the realms of the audit report but could be within an audit committee report covered within Form 10K or Form 20F.

21. Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report?

Disclosure in the audit report of other participants in the audit does not provide useful information to investors and users of the audit report.

The selection of auditors to participate in an audit falls within the domain of the audit committee and accordingly requiring auditors to report on the other participants in an audit falls within the realms of an audit committee's responsibilities and accordingly could be perceived as the auditor performing the duty of management or the board of directors.

Accordingly AngloGold Ashanti believes that the disclosure in the audit report of the other participants does not add to the useful information to investors. AngloGold Ashanti recommends that such information if deemed useful to investors and users should be disclosed elsewhere within the annual report or proxy statements and neither within the annual reporting of the entity nor within the audit report.

22. Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?

It is AngloGold Ashanti's assertion that the proposed requirements should be revised and should not form part of the audit report as stated above.

AngloGold Ashanti supports the premise included in International Standards on Auditing ("ISA 600") that a group auditor is responsible for the direction, supervision and performance of the group audit engagement and for the group audit opinion. The ISA 600 model depends, however, on the group auditor being able to use the work of other auditors responsible for subsidiary and other component parts of the group, especially when that entity is multinational as current jurisdictional laws do not generally allow for one audit firm to take responsibility across jurisdictions in separate countries.

ISA 600 does specify the level of involvement group auditors are expected to have in the work of other auditors in order to obtain sufficient appropriate audit evidence on which to base the opinion on the group financial statements. We note that audit firm networks help this process because the group auditor is using the same methodology as other audit firms that operate within the same network.

It is a function of the audit committee in approving and selecting the independent public accountants to audit the company to review and understand the level of involvement that other auditors may have in the audit process in developing the group audit opinion and accordingly should take responsibility for the selection of the group auditors as well as those assisting auditors.

23. Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?

AngloGold Ashanti does not support the disclosures as stated but would support such disclosures within other areas of the Form 20F or Form 10K reporting requirements.

24. Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement s impact a firm's ability to compete in the marketplace?

AngloGold Ashanti does not comment on this question as it relates specifically to an audit firm.

25. Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?

The naming of other auditors within an audit report may have consequential impact on the necessity of the entity to obtain consents in accordance with other sections of the Securities Exchange Commission Rules.

Accordingly our recommendation that such disclosures, if deemed relevant to investors and users of financial statements be made elsewhere within the Form 10K or Form 20F, would ensure that an entity does not need to obtain multiple consents at the time it is preparing any regulatory filing where consents for the use of the name of the auditor in its financial statements are required.

26. Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?

Percentage of total hours in the most recent period's audit is not a reasonable measure of the extent of other audit firm's participation in the audit. A more reasonable measure would be the extent to which the lead engagement firm was responsible for auditing the asset base and revenue of the entity and the participation of the other

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firms, by firm, in these metrics.

27. What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?

Audit hours are not a representative measure of other participant's participation in the audit as these can be impacted by locational and jurisdictional issues. Some of an entities locations may not have computerized or other similar systems and although not material to the entire operation using financial metrics, may require substantially more audit hours to complete an independent audit. Further, the scale rates of audit firms may differ materially across jurisdictions due to country specific circumstances and thus in some circumstances a substantive based audit maybe more efficient and effective than other types of audit approaches.

28. Should the Board require discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosures?

Any discussion with respect to the nature of the work performed by other participants in the audit are more correctly disclosed in an audit committee report rather than as extended reporting by an independent accounting firm. The nature of work performed in an audit is developed via discussions with the audit committee and is not, necessarily, determined by any lead engagement firm or the respective participant firms acting alone.

29. Would the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated be useful to users of the audit report?

As stated above, audit hours are not a useful measure in determining actual participation in an audit.

30. Is the example disclosure in the proposed amendments helpful? Would additional examples be helpful? If so, what kind?

As stated above, audit hours are not a useful example of participation in an audit and as such, the example disclosure in the proposed amendments is not helpful.

31. Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% greater? Would another threshold be more appropriate?

Should investors and other users of financial reports believe that the disclosure of all of the names of the audit firms involved in the determination of the group audit's opinion is relevant and necessary then a minimum percentage threshold should be included. AngloGold Ashanti believes that this should be linked to the size of assets of the entity rather than any number of hours or some other arbitrary measurement.

32. Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?

As stated above, audit hours are not a suitable measure.

33. **Are the requirements to disclose the name and country of headquarters' office location of the referred-to firm sufficiently clear and appropriate?**

Should the disclosure of the firms that have assisted the lead engagement firm in determining its group audit opinion be deemed relevant and necessary by investors and users of financial statements, AngloGold Ashanti would recommend that the name and office location and country of the respective firms be disclosed.

34. **Are there any challenges associated with removing the requirement to obtain express permission of the referred-to firm for disclosing its name in the audit report? If so, what are the challenges and how could they be overcome?**

In determining whether express permission is required, would be dependent on separate country specific legislation. In a multinational audit a specific country law may not allow the auditor's name to be referred to elsewhere within financial statements and accordingly how this information is disclosed, would be a challenge.

35. **In situations in which the audit report discloses both the referred-to firm and other participants in the audit, would using different disclosure metrics (e.g., revenue for the referred-to firm and percentage of the total hours in the most recent period's audit for the other firms and persons) create confusion?**

AngloGold Ashanti believes that using audit hours creates confusion using the arguments as set out above and accordingly other metrics should be considered, if investors and users of financial statements believe the information relevant.

Yours faithfully

S. VENKATAKRISHAN
EXECUTIVE DIRECTOR and CHIEF FINANCIAL OFFICER

Please note that the comments expressed herein are solely my personal views

Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803
United States

Chris Barnard
Actuary

17 October 2011

- **Release No. 2011-007**
- **PCAOB Rulemaking Docket Matter No. 029**
- **Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2**

Dear Sir.

Thank you for giving us the opportunity to comment on your release on Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2. You are proposing amendments to your standards that would improve the transparency of public company audits. The proposed amendments would: (1) require registered public accounting firms to disclose the name of the engagement partner in the audit report, (2) amend the PCAOB's Annual Report Form to require registered firms to disclose the name of the engagement partner for each audit report already required to be reported on the form, and (3) require disclosure in the audit report of other independent public accounting firms and other persons that took part in the audit.

I strongly support the proposed amendments. These will definitely increase transparency and accountability, and should therefore act to improve the engagement partner's standard of professionalism, due care and professional scepticism. It is interesting to consider the alternative, or current situation. What are the advantages of not disclosing the engagement partner in the audit report? Why should the engagement partner, who leads and is largely responsible for the audit, be anonymous? The release provides some arguments against disclosure here, but these seem mostly spurious and / or specious. For example "some auditors suggested that the identity of the engagement partner would not be useful to investors".[1] This is flatly refuted by the investors themselves,[2] and we should give more credence to the actual views of investors, rather than auditors' perceptions thereon.

I have some specific comments, which I will address in answer to your specific questions.

Answers to specific questions raised by the PCAOB

1. Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?

Yes. It would be more transparent, and easier for investors to contact the engagement partner. The engagement partner would be more accountable, and this should act to improve the engagement partner's standard of professionalism, due care and professional scepticism.

2. Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?

Disclosing the name of the engagement partner should increase accountability. Requiring a signature should increase accountability even more. This is human nature.

3. Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?

I believe that the proposed approach provides the right balance here. The name of the engagement partner would be disclosed, and the audit firm would sign the report.

4. Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?

Yes. The proposed disclosure is quite clear.

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[1] See release, page 9.
[2] See release, page 4: "Investor members of the SAG generally supported a signature requirement"; and "most IAG members expressed support for such a requirement". See also page 21: "Investors have requested greater transparency about who is performing the audit and how much of the audit they have performed". There are other examples in the release.

5. Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?

Yes. The proposed disclosure is quite clear.

6. Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?

Many professionals, such as doctors, lawyers, accountants and actuaries have to sign reports containing findings, opinions and judgements, which may be controversial. I am not aware of any unusual security risks in this regard.

21. Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?

Yes. Investors have stated a preference for disclosing this information.[3] *Again, there is no reason not to disclose the information.*

22. Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?

The proposed requirements are quite clear.

23. Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?

Yes, the proposed requirements are sufficiently clear. I agree that the name of the firm or person that is disclosed should be based on whom the auditor has the contractual relationship. This is reasonable, and clearly appropriate.

24. Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?

I do not believe that there will be any adverse impact on competition. We are only disclosing the practical realities here.

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[3] See release, comments at page 21.

25. Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?

I do not foresee major challenges in this regard.

26. Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?

Yes, I support the total hours approach. This best represents the quantum of work actually done, and is a superior measure compared with monetary apportionment.

27. What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?

No insurmountable challenges. Recording hours is common practice worldwide.

28. Should the Board require discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosures?

I would generally support such discussion as part of the disclosure, but only at the discretion of the audit firm.

Yours faithfully

C.R.B.

Chris Barnard

Battelle&Battelle LLP
Certified Public Accountants+Business Advisors

December 12, 2011

Office of the Secretary
Public Company Accounting Oversight Board
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RE: PCAOB Rulemaking Docket Matter No. 029 – Proposed Rule on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits (Release No. 2011-007)

Battelle & Battelle LLP appreciates the opportunity to comment on the PCAOB's proposed rule *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (the Proposed Rule). We are a registered public accounting firm serving middle-market issuers.

Overall Comments on the Proposed Audit Report Disclosure

We do not support disclosure of the engagement partner's name in the audit report because the report is issued upon the authority of the firm and not the authority of the individual engagement partner. In fact the PCAOB's own standards prohibit the engagement partner from signing the firm's report until he or she has obtained concurring approval of issuance from the engagement quality reviewer assigned by the firm. While it is true that a firm could not issue an audit report that is inconsistent with the views of the engagement partner, the engagement partner also could not issue an audit report that is inconsistent with the views of the engagement quality reviewer or certain other firm consultants. We do not accept the argument that disclosing the engagement partner's name in the audit report personally would cause the engagement partner to exercise greater care in performing the audit. The consequences to an engagement partner of failing to exercise due care in the performance of an audit are significant, and they would be no more or less significant if the engagement partner were named in the audit report.

We also do not believe that disclosing the identity of the engagement partner within the audit report would provide an incentive for the firm to improve the quality of their engagement partners. The firm is responsible for assigning the engagement partner and the balance of the engagement team as well as the engagement quality reviewer. The issuer's audit committee, and not the investors, is responsible for engaging the audit firm. If the audit committee has concerns about the integrity, objectivity, independence or competency of the engagement partner, they would address those concerns with the firm. If they were not satisfied with the firm's response, they would likely consider engaging another audit firm. These types of decisions are appropriately left with the audit committee and not with the individual shareholders. Providing greater transparency to shareholders would serve no useful purpose because it is not their responsibility to assess the qualifications of the audit firm or the engagement partner.

Naming the engagement partner in the audit report may lead to a misconception by investors in terms of who is responsible for the audit and the issuance of the audit opinion. Audits are accomplished because of all of the resources of a firm. Therefore, in addition to the engagement quality reviewer and firm consultants, there can be other partners supporting the firm's signature on an engagement, and the lead engagement partner justifiably relies on them.

The framework that supports a registered public accounting firm's ability to perform high-quality audits is the firm's system of quality control over its accounting and auditing practice. A quality control system is structured to provide reasonable assurance that firm personnel comply with applicable professional standards and applicable regulatory and legal requirements, and that the firm issues reports that are appropriate in the circumstances.

The PCAOB's auditing and quality control standards require firms to assign engagement partners with the integrity, objectivity, independence and competence to discharge their responsibility. One element of a firm's quality control system is the establishment of policies and procedures designed to provide reasonable assurance that a firm has skilled professionals to perform engagements in accordance with professional standards and regulatory and legal requirements and to enable a firm to issue reports that are appropriate in the circumstances. Although the skill and expertise of the engagement partner undoubtedly contribute to audit quality, even an engagement partner who possesses high levels of intelligence, integrity, honesty, motivation, and aptitude for the profession cannot fulfill this element of quality control alone. It takes the extensive resources of a firm to ensure that the capabilities and competence of its professionals are developed through professional education, continuing professional development, work experience, and mentoring by more experienced personnel.

To maintain quality audits, it is critical that all quality control elements be addressed by the firm. Many of these elements cannot be addressed by and are not the sole responsibility of the engagement partner, such as establishing policies and procedures designed to provide reasonable assurance that personnel comply with independence, integrity, objectivity, and other relevant ethical requirements. In addition, some elements of quality control, such as the acceptance and continuance of engagements, require the approval of professionals outside of the engagement team.

Thus, we do not believe that requiring the engagement partner to be named in the audit report would enhance audit quality as it is not the engagement partner alone who signs an audit opinion, but rather the firm, which represents the collective efforts of many seasoned professionals.

The Proposed Rule indicates that the disclosure requirement would increase transparency about who is responsible for performing the audit, which could provide useful information to investors. The audit committee is directly responsible for the appointment, compensation, and oversight of the work of the auditor, and the auditor reports directly to the audit committee. Audit committees therefore represent the investors in this important role. This role has been reinforced by various SEC rules and regulations resulting from the Sarbanes-Oxley Act, as well as stock exchange listing requirements.

To ensure that the audit committee chooses its independent auditor on an informed basis, the audit committee usually develops a list of criteria and expectations that they believe the independent auditor should meet. These criteria include, among others, evaluating the partners who will be assigned to the client service team. During the proposal process the audit committee generally inquires about the SEC and relevant industry experience of the client service team, including the engagement partner.

After an audit committee selects an auditing firm, two-way communication becomes a natural part of an auditor's relationship with the audit committee. Audit committees receive regular partner-level attention during every phase of the audit, as necessary. In addition, throughout the year, the engagement partner communicates with the audit committee during the performance of quarterly reviews of interim financial information. The audit committee generally asks probing questions of management, the internal auditor, and the independent auditors, which allows it the opportunity to continually assess the competency of the engagement partner.

We believe there is currently significant transparency regarding the engagement partner's involvement in the audit. This transparency is achieved through the supervision by the audit committee, which is charged with the responsibility for the appointment and oversight of the work of the auditor on behalf of the investors. Therefore, we do not believe that increased transparency about the identity of the engagement partner would be useful to investors. One potential unintended consequence may be that investors could second guess an audit committee on the selection of an audit firm and the engagement partner. This potentially could result from situations where the engagement partner is associated with another current or former audit client experiencing difficulties (such as bankruptcy, a going concern uncertainty, adverse publicity, *etc.)* that may not relate to audit quality.

Overall Comments on the Proposed Amendment to Form 2

Based on our above response to the proposed audit report disclosure of the engagement partner's name, we do not support the proposed amendment to Form 2.

Overall Comments on the Disclosure of Other Participants in the Audit

We believe this issue to be separate from the above discussion and believe it merits its own separate proposed rule. However, we do support the disclosure of other participants in the audit. The proposed rule changes will provide investors and other users of the audit report with greater transparency into the other participants in the audit. Currently, when the lead auditor reports and assumes responsibility for work performed by other auditors, the users of the audit report cannot identify other participants in the audit in order to evaluate the other auditors. As such, we support the proposed rule to require additional disclosure of other participants in the audit.

Conclusion

We appreciate the opportunity to provide our comments to the PCAOB for further consideration.

Sincerely,

Battelle & Battelle LLP

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January 9, 2012

Via e-mail: comments@pcaobus.org

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Re: PCAOB Release No. 2011-007, Rulemaking Docket Matter No. 029,
Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2

Dear Members and Staff of the Public Company Accounting Oversight Board:

BDO USA, LLP welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (the PCAOB or Board) Release No. 2011-007, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (the Release). We recognize the need to increase transparency about the audit process, particularly as it relates to promoting the performance of high quality audits, and we are committed to actively participating in efforts to enhance audit performance. We believe that many of the recent efforts initiated by the PCAOB, including changes to the auditor's report and enhanced audit committee communications, support such transparency.

The Board explains in the Release that inspections show that there is still significant room for improvement in complying with PCAOB auditing standards and that disclosing the name of the engagement partner may be one means of promoting better performance. As noted in our comment letter dated December 14, 2011, regarding PCAOB Release No. 2011-006, *Auditor Independence and Audit Firm Rotation,* we share the Board's concern regarding the frequency and types of audit deficiencies found during inspections. However, while we are committed to the performance of high quality audits, we believe that understanding the root causes of these deficiencies and addressing them with targeted responses is the best way to improve audit quality. In contrast, we do not believe that disclosing the name of the engagement partner will achieve this objective and may carry with it certain unintended consequences.

We also have continuing concerns about the potential impact of the Release on the liability of the engagement partner under the Securities laws and other legal regimes. We are also concerned about any incremental liability that may be taken on by identification in the audit report of other firms/participants in the audit. Accordingly, we believe it is important for the PCAOB to perform a complete analysis of these implications.

With respect to disclosure of other firms/participants in the audit, while we understand that more information about the composition of the cadre of audit resources may be useful to investors, we are concerned that it could detract from the perception of the principal auditor's primary responsibility for the overall audit. If this part of the Release is adopted, however, we suggest alternative disclosure thresholds that we believe are more practical than those proposed, but which should still satisfy investor needs.

Our views on the main areas covered by the Release are provided within the sections below, with a reference to the relevant questions posed by the Release shown parenthetically, where applicable.

Disclosure of the Name of the Engagement Partner

We do not believe that audit quality would be improved in a meaningful way through disclosure of the name of the engagement partner. We understand that some stakeholders believe that such disclosure would improve audit quality by increasing the engagement partner's sense of accountability so that greater care would be taken in performing the audit. As described below, we believe that there is already a sufficient level of accountability in the existing environment, obviating the need for engagement partner identification. Moreover, any such disclosure in the audit report could have unintended consequences.

Engagement Partner Accountability
(questions 1-3)

As stated in our comment letter to the 2009 PCAOB request for public comment on the *Concept Release on Requiring the Engagement Partner to Sign the Audit Report,* we believe that engagement partners are already keenly aware of their responsibilities and accountability. In our view, disclosure of the name of the engagement partner would not have an impact on engagement partners' accountability because, as described below, they are already held accountable to multiple external parties, including regulators, investors, and audit committees, in addition to the audit firm.

(a) PCAOB and SEC

The PCAOB performs inspections to evaluate the sufficiency of a firm's quality control system and the performance on individual audit engagements. Further, engagement partners are also subject to enforcement actions by the PCAOB and SEC, which can significantly impact the careers of engagement partners and are visible to the public. Determinations of improper professional conduct can lead to various penalties, including barring an individual from practicing before those bodies.

(b) Investors

There are various mechanisms under the law for investors to bring legal action against engagement partners if there is a perceived audit failure. The potential for litigation is a substantial incentive to maintain audit quality and a clear and strong reminder to engagement partners of their accountability.

(c) Audit committees

Acting on behalf of investors and other stakeholders, audit committees provide oversight over the audit process. Under the Sarbanes-Oxley Act of 2002, audit committees are responsible for the appointment, compensation and oversight of the auditor, and for pre-approving all audit and non-audit services provided by the audit firm. Engagement partners have frequent interactions with audit committees on substantive audit issues where they may be subject to probing questions and ultimately to evaluation by the audit committee, which is indicative of this line of accountability.

(d) The audit firm

Through their systems of quality control, audit firms are required to monitor and evaluate the quality of engagement partners, as follows:

- Development of engagement partner competence and authority to perform the role;
- Performance evaluations and compensation structures that appropriately recognize and reward technical competence, professionalism, and commitment to ethical principles and take action when performance is lacking. Any PCAOB inspection findings would ordinarily be an important part of the evaluation process;
- Engagement quality reviews to evaluate the significant judgments made and conclusions reached in forming an overall conclusion on the engagement; and
- National office oversight of engagement performance through technical consultations or otherwise.

This direct line of accountability of the partner to the firm is embedded in day to day activities of the partner.

Potential Liability
(questions 7-9)

We appreciate the Board's change from the Concept Release in no longer providing for the signature of the engagement partner in the audit report. However, we believe that even disclosure of the name of the engagement partner in the audit report has the potential to increase liability risk under Section 11 of the Securities Act of 1933 (Section 11) and Section 10(b) and Rule 10-b(5) of the Securities Exchange Act of 1934 (Section 10). Accordingly, we believe that the Board should perform a full assessment of the impact of these proposed amendments on engagement partner liability before concluding on the appropriateness of the proposals.

We are concerned that disclosing the name of the engagement partner within the audit report may require the engagement partner to file a consent pursuant to Section 7 of the Securities Act of 1933 and Rule 436, which would trigger Section 11 liability. Accordingly, we suggest that the PCAOB work with the SEC to clarify that any disclosure requirement would meet the objective of the Release of not increasing the engagement partner's liability under Section 11 and that consent pursuant to Section 7 and Rule 436 for engagement partners is not required.

With respect to Section 10(b) liability, while we understand that the United States Supreme Court has clarified what must be shown to prove that an individual or firm made an untrue statement of a material fact in violation of Section 10(b) and 17 C.F.R. § 240.10b-5 (Rule 10b-5)[1], it is uncertain how lower courts will apply the Court's ruling to engagement partners, so claims under Section 11 may nevertheless be asserted against them. The costs to defend against any such claims, even meritless ones, are potentially significant and defending such personal lawsuits would be highly disruptive to the daily business of engagement partners. Taking a partner out of the practice while defending a lawsuit would be extremely expensive and ultimately increase the costs of providing audits.

In addition to our concerns about increased liability risk as it relates to disclosure of the name of the engagement partner, we are also concerned about increased liability risk as it relates to disclosure of other participants in the audit.

For these reasons, we recommend that the Board conduct a thorough legal analysis before considering adoption of any of the proposed amendments relating to identification of the engagement partner.

Proposed Amendment to Form 2 to Disclose Name of Engagement Partner
(questions 11-13, and 15)

As discussed above, we do not believe that disclosure of the name of the engagement partner will increase the partner's sense of accountability and resulting audit quality. However, if the Board nevertheless concludes that such identification will be required, we believe that disclosure within Form 2 is preferable to disclosure within the audit report. Disclosure of the engagement partner name in both the audit report and Form 2 would be redundant and, therefore, unnecessary. As noted in the Release, the use of Form 2 provides a convenient mechanism to retrieve information about a firm's engagement partners for all of its audits. Additionally, such an approach provides for consistency in the manner of reporting such that investors can easily ascertain the names of the engagement partners for any audit reports issued during the reporting period. Further, disclosing the name of the engagement partner solely in Form 2 may help to alleviate the concerns we noted above relating to engagement partner liability.

In addition to disclosure of the name of the engagement partner on Form 2, the Release requests comment on whether firms should be required to file a special report on Form 3 whenever there is a change in engagement partners before the end of the mandatory

[1] The U.S. Supreme Court issued its decision in Janus Capital Group, Inc. v. First Derivative Traders in June 2011. This decision addressed what it meant to "make any untrue statement of material fact" under Section 10(b) and Rule 10b-5(b), which was held to mean, for the purposes of Rule 10b-5, that the maker of a statement is the person or entity with ultimate authority over the statement, including its content and whether and how to communicate it.

rotation period, to explain the reasons for the change. We do not believe that such additional reporting would be necessary given the proposed amendments to Form 2 that provide for disclosure of the name of the engagement partner for each audit performed by a firm during the annual reporting period. Moreover, disclosure of such changes without disclosing the reasons could create market uncertainty, while disclosure of changes precipitated by personal matters unrelated to audit quality would be overly intrusive.

Disclosure of Other Participants in the Audit
(questions 16-21)

The Release would require disclosure in the audit report of the names, locations, and extent of participation of other independent public accounting firms, and other persons not employed by the auditor, that took part in the most recent period's audit when the auditor assumes responsibility for or supervises their work. As previously stated in our letter, while we understand that more information about the composition of the cadre of audit resources may be useful to investors, we are concerned that it could detract from the investors' perception of the principal auditor's responsibility for overseeing the audit. However, we have provided our views on this element of the Release in the event that the Board decides to proceed with the recommendations.

We agree that it is appropriate to not require disclosure of (1) individuals performing the engagement quality review, (2) persons with specialized skill or knowledge in a field other than accounting or auditing, (3) persons employed or engaged by the company who provided direct assistance to the auditor, or (4) off-shore arrangements to the extent that that work is performed by another office of the same accounting firm (even though that office may be located in a country different from the country where the firm is headquartered).

Our concerns regarding the increased liability risk as it relates to other participants are included within the preceding section entitled *Potential Liability*, beginning on page 3.

Measurement Criteria for Disclosure and Nature of Disclosure
(questions 25-28)

The Release suggests that the most appropriate quantitative measure of the other participants' relative participation in the audit is the percentage of total hours in the most recent period's audit, excluding the hours for engagement quality and Appendix K reviews. While this measurement criterion is likely the most appropriate and the data easily obtainable by engagement teams, we believe there are certain implementation issues that should be considered before establishing such a requirement. This includes determining the appropriate audit hours to use when audit work serves two purposes (e.g., when there is some overlap between work performed on statutory audits of subsidiaries pursuant to foreign laws and that used in connection with the group audit of the issuer).

The Release also asks if a discussion of the nature of the work performed by other participants in the audit should be required. We do not believe that such disclosure would be helpful without providing the context within which such work was performed, which would be difficult to summarize in a meaningful way. To put such description in the proper context would require significant amount of background and other information pertinent to the conduct of an audit, and would generally not be well understood by users of the financial statements not expert in the performance of an audit. Providing such information would therefore run the risk of being extremely lengthy and potentially misleading.

Threshold for Disclosure
(question 31)

The Release explains that the Board's intention in proposing a 3% threshold for disclosing other participants in the audit is to provide investors and other users of the financial statements with the most meaningful information about participants in the audit. However, we believe that a 3% threshold is too low and, in that regard, suggest that it instead be set at 10% or 20%, as these percentages are consistent with disclosures for material matters required by other regulatory and standard setting bodies, such as those relating to segment reporting (10%) and for determining what constitutes a "substantial role" under the PCAOB registration rules (20%). A higher than 3% threshold would also be consistent with views mentioned by some investor and issuer members of the Standing Advisory Group at its November 2011 meeting.

Once an appropriate threshold is established, we also believe it would be appropriate to provide such disclosures within ranges (e.g., firms between 10%-20%, 20%-40%, etc.). The use of ranges would simplify reporting and alleviate any concerns about the precision of estimates that would need to be made in determining the extent of participation.

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We appreciate the opportunity to comment on the Release and are available to answer any questions you may have regarding our views. Please direct any questions to Chris Smith, Audit and Accounting Professional Practice Leader, at 310-557-8549 (chsmith@bdo.com) or Susan Lister, National Director of Auditing, at 212-885-8375 (slister@bdo.com).

Very truly yours,

/s/ BDO USA, LLP

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January 9, 2012

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Re: PCAOB Rulemaking Docket Matter No. 29, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*

Dear Office of the Secretary:

We appreciate the opportunity to respond to the Public Company Accounting Oversight Board's ("PCAOB" or "Board") Release No. 2011-007 on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* ("Release"). We are supportive of the Board's continuous efforts to improve transparency to investors and other financial statement users. This letter includes our views and observations on engagement partner identification and identification of other participants in the audit as set forth in the Release.

Engagement Partner Identification

We do not support engagement partner identification in audit reports, as we do not believe it will serve to advance the Board's goal of improving audit quality. We have concerns that the impact of such a mandate would result in unintended consequences. We believe that identifying the audit partner places undue emphasis on that individual in the public's eye rather than all of the elements of the quality control system that lead to expression of a firm's opinion, such as the engagement quality reviewer.

Currently, an engagement partner is accountable to numerous individuals. They are accountable directly to members of a firm's quality control structure who conduct internal inspections of audit engagements and evaluate partners, and to their fellow partners in their firm. Engagement partners are held accountable by clients' audit committees, management and investors. In addition, engagement partners are held accountable by regulators of the PCAOB, the SEC and indirectly to various other industry regulators of our clients. We do not believe that identifying an engagement partner in the audit report will increase the accountability they already feel or incentivize those partners to conduct higher quality audits than they already perform now.

While we acknowledge that identifying the engagement partner in the audit report would increase transparency of that information, we question whether that information is valuable to investors, and it is unclear how that information can be used by investors to better understand the audit or audit process. What information about an audit partner will investors have and use to make any meaningful evaluation about the audit? Audits are performed by teams of individuals, many of whom perform critically important functions, like staff performing critical audit steps, subject matter experts, technical reviewers, third party specialists, etc. Will any evaluation based upon limited information about the audit partner alone really be appropriate without evaluating the entire audit team and, for that matter, the conduct of the audit?

We also have concerns that identifying an engagement partner in the audit report could increase their liability exposure in litigation. While we understand it is not the intent of the PCAOB to increase the liability of the engagement partner, it could be an unintended consequence of the Release.

However, we would not object to the identification of the engagement partner in Form 2 if the Board believes that information is responsive to investors' requests for increased transparency.

Identification of Other Participants in the Audit

We support the Board's efforts to increase transparency and enhance users understanding of the audit process. However, we have concerns that providing the names of other independent accounting firms and others not employed by the auditor, when the auditor assumes responsibility for or supervises the work of those participants, would appear to diminish or change the overall responsibility of the principal auditor. Investors may place undue reliance on other participants listed in the report or misinterpret their actual participation in audit. We also believe this requirement may undermine the supervisory and review concept built into our quality control standards and doesn't speak to the principal auditor's role in planning, supervising or reviewing the work performed by the other participants. We do not believe it is possible for investors to make any informed decision about the impact on audit quality simply by naming other participants without also evaluating the materiality and complexity of the information being tested, nature of the work performed, the qualifications of the participants who perform that work, the extent of the planning, supervision and review performed by the principal auditor, etc.

We also have concerns that the identification of other participants could be a competitive disadvantage for smaller firms when compared to larger firms who have similar branding of their network firms, *i.e.,* use of a common name. Investors may make incorrect assumptions about the quality of network firms based on similarity of their names to the detriment of smaller firms that lack a similar network structure.

If the Board feels the current quality control standards on supervision of other participants used in an audit is unsatisfactory, we respectfully propose the Board tackle those issues by amending current quality control standards or proposing additional quality control standards to address those issues.

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We appreciate the opportunity to express our views for the Board's consideration. If you have any questions or would like to discuss these matters further, please contact Steve Rafferty or Jennifer George at 417.831.7283, or by email at srafferty@bkd.com or jgeorge@bkd.com.

Sincerely,

BKD, LLP

BKD, LLP

Black Economic Council
Latino Business Chamber of Greater LA
National Asian American Coalition

IMPROVING THE TRANSPARENCY OF AUDITS: PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS AND FORM 2

PCAOB Rulemaking
Docket Matter No.29

Comments of the Black Economic Council, Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition on Need for Greater Transparency Regarding Public Audits

The Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition are highly interested in providing in-depth comments regarding Docket Matter No.29 to improve the transparency of public company audits. These audits are generally neither transparent nor understandable to the public and often are not understandable to the regulators who rely upon their transparency.

Due to our being informed about this rulemaking matter on January 6th, 2012, we are initially providing very abbreviated comments. But, we will seek, within the next few weeks, leave to amend, so that more comprehensive comments can be made.

The Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition are all minority based business organizations that serve the nation's 120 million minorities, as well as our nation's six million minority-owned businesses. Historically, minority groups have played a very limited, if not negligible, role before the PCAOB. It is our intention, given our DC regulatory and congressional liaison office, headed by Deputy Director Mia Martinez, to play a greater role in the future.

Black Economic Council
Latino Business Chamber of Greater LA
National Asian American Coalition

Although the purpose of audits is to provide a specialized type of transparency and integrity, the public as a whole, and particularly 120 million minorities, have very little knowledge of this process and often even less confidence in this process. In part, the lack of minority confidence may be attributable to the historic role that discrimination has played on who becomes a CPA at a large law firm, particularly at a Big Four CPA firm.

To date, the Big Four remain virtually all white and disproportionately male. All three organizations herein, in 2010, sought information from each of the Big Four firms relating to the diversity of their workforce. This information was to be submitted to the California Public Utilities Commission in regard to its diversity oversight of Sempra Energy, Southern California Edison, Pacific Gas and Electric, Verizon and AT&T. Each of the four CPA firms refused to provide such information, apparently on the ground that this would harm their reputation before the CPUC, the regulator of the five companies they audited.

As a result of the general lack of transparency in audits, minority investors, who are disproportionately small, are at a very special disadvantage in their ability to analyze audit reports.

Initially, we will briefly comment on the three amendments to PCAOB standards set forth in Docket Matter No. 29. But, we do not concur with the unnecessarily narrow focus of the amendments which fail to address key elements of transparency. The audit report should be in plain English and easily understandable by unsophisticated small investors. Further, the audit report should have a one page simple description of its most salient points.

It should be noted that the new Consumer Financial Protection Bureau has begun its efforts to do so regarding credit cards and mortgage originations. Each form is required to have a simple one page on rights and responsibilities. Further, the Pew Charitable Trusts, headquartered in DC, has proposed a very commendable one page consumer format for checking accounts.

All three minority groups are working closely with both Pew and the CFPB on these matters. As a result, we offered to the PCAOB our modest expertise, if it wishes such. The groups' deputy director in DC, Mia Martinez, is prepared to play such an initial role and is presently attempting to do so for the Federal Communications Commission in her role on the FCC's Consumer Advisory Council. (mmartinez@naacoalition.com)

The three minority groups are also deeply involved in the contentious Volcker rule attempting to bring transparency and order to unnecessary risk taking. Our initial position filed before the Securities and Exchange Commission, Federal Reserve, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency is consistent with former Federal Reserve Chairman Mr. Volcker's own position on simplicity and clarity.[1] The three groups, for example, stated in their initial Volcker rule comments that the Ten Commandments and the Gettysburg Address were both less than 400 words. Yet, both are well remembered and are fully understandable by the public at large.

Specific Initial Observations

Firstly, we support requiring the audit report to state the name of the engagement partner responsible for the most recent period's audit. Our groups have found substantial difficulty in securing such information and activities relating, for example, to Deloitte & Touche, in our pending Sempra Energy rate case involving a $2.4 billion rate increase dependent on the accuracy of the Deloitte & Touche report.

Similarly, we agree with the second requirement for CPA firms to disclose on Form 2 the name of the engagement partner for each audit report required to be reported on Form 2.

Lastly, we support disclosure in the audit report of other independent accounting firms that took part in the most recent period's audit.

Our experience in dealing with Deloitte & Touche in the pending $2.4 billion Sempra rate case, where the Black Economic Council, National Asian American Coalition and Latino Business Chamber of Greater LA are the only minority business representatives, bears out these problems, albeit not directly. Deloitte & Touche despite being the auditor for more than fifty continuous years of Sempra has refused to allow itself to be subject to cross-examination regarding its 2007-2010 audit reports prepared for Sempra as it seeks to justify the accuracy of its $2.4 billion proposed rate increase that will be imposed upon millions of consumers in their service area. (Sempra is seeking to

[1] The opening statement in our comments was "it is inappropriate to trivialize the Volcker rule, the most significant bank enforcement legislation since the New Deal, by producing a document almost one thousand times longer than either the Gettysburg Address or the Ten Commandments."

require the ratepayers to incur $2.4 billion in additional rates during the period 2012-2015).

Further, based on our January 4th and 5th conversations with CalPERS senior management, it appears that major shareholders, such as CalPERS, may be having difficulty in securing information relating to large CPA firm audits. In addition, the California Public Utilities Commission has so far been unable to secure any reliable, definitive information from either the issuer company (Sempra) or Deloitte & Touche on the above referenced matter.

In conclusion, as we set forth in our Volcker Rule comments to the Federal Reserve, FDIC, OCC and the SEC, transparency is a great virtue, but it is even more of a virtue when it is short, simple and understandable.

Fuller comments will be provided at a subsequent date.

We thank the PCAOB for its extraordinary job in setting forth the problems the public and investors have in relying on the accuracy and integrity of large CPA firms, with particular reference to Deloitte & Touche (New York Times, 10/17/11, "Accounting Board Criticizes Deloitte's Auditing System," Wall Street Journal, 10/18/11, "Audit Watchdog Criticized Deloitte Quality Controls in '08," Wall Street Journal, 12/21/11, "Accounting Board Finds Faults in Deloitte Audits.")

Most respectfully submitted,

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IMPROVING THE TRANSPARENCY OF AUDITS:
PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS AND FORM 2
PCAOB Release No. 2011-007
October 11, 2011
PCAOB Rulemaking Docket Matter No. 29

The Accounting Principles and Auditing Standards Committee ("the Committee" or "We") of the California Society of Certified Public Accountants ("CalCPA") is grateful for the opportunity to comment on the proposed amendments referenced above. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 35,000 members. The Committee is comprised of 43 members, of whom 56 percent are from local or regional firms, 12 percent are sole practitioners in public practice, 9 percent are in academia and 2 percent are in an international firm.

The Committee strongly opposes any requirement to require that the engagement partner be identified in public reports. The reasons for this are explained in the answers to the PCAOB's questions.

I. Introduction

II. Disclosure of the Engagement Partner

The Committee strongly opposes any requirement to require the engagement partner to sign the audit report or be identified as the engagement partner in public reports.

A. The Proposed Audit Report Disclosure

1. Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?

No. There is already sufficient incentive under Sarbanes Oxley, PCAOB inspections and legal exposure to achieve audit quality.

The Proposed Amendments (the "Proposal"), on page 9, after citing the need for improvement based on its inspections, says that "Disclosing the name of the engagement partner may be one means of promoting performance." We believe that this is not valid. The identity of engagements and engagement personnel where there is alleged non-compliance with PCAOB standards is not disclosed, so disclosure of the name of the engagement partner in connection with the audit report would have no relationship to results of the inspection program.

The Proposal, on page 9, mentions the effect of disclosure of the name of the engagement partner on "transparency." It goes on to cite assignment of more experienced and capable engagement partners, allowing investors to consider whether the engagement partner was replaced sooner than required, and discouraging clients from pressuring the firm to remove an engagement partner. The Committee believes the PCAOB's perceived benefit of additional transparency is invalid. The Committee is not aware that there is any empirical data on this issue, and notes that views supporting the naming requirement cite benefits that "may," "could," or "might" be achieved. As such, they are largely conjecture, and as such do not provide an adequate basis for such a requirement.

For "transparency" to be meaningful, it must provide a view of something meaningful. The name of the engagement partner is not meaningful information to investors. The name of the engagement partner in most cases will be no more than the name of an unknown person of unknown qualifications to investors and others outside the entity, and requiring the identity of the engagement partner therefore hardly increases transparency in any meaningful way.

It is hard to see how the name of the engagement partner is of any use in predicting the quality of a particular audit. An audit typically involves a host of resources of the audit firm, and the quality of a particular audit is more dependent on the availability and skill of those resources than on the engagement partner. Further, the best assessment of the engagement partner is made by the audit committee and management, and this is unrelated to whether the name of the engagement partner is disclosed in the audit firm's report.

2. Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?

No. For the reasons stated in response to Question 1, the engagement partner is already very well focused on his or her responsibilities. The Committee does not believe the engagement partner's sense of accountability is affected by disclosure of his or her name or whether a signature is required.

3. Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?

No. It would cloud the responsibility of the firm for the audit. It is the firm, with its broad resources, that is responsible for the audit; the audit is not the work of a single engagement partner, and the engagement partner in most firms cannot operate autonomously. Adding the engagement partner's name to the audit report is simply not relevant to the user's ability to rely on the report of the firm. In addition, the Committee does not believe there is a meaningful difference between naming the engagement partner and adding the engagement partner's signature.

The PCAOB should not require the disclosure of the name of the engagement partner.

4. Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?

No. The proposed disclosure is "The engagement partner responsible for the audit . . . ." This grossly mischaracterizes the role of the engagement partner. It is the firm that is responsible for the audit. The engagement partner's responsibility is to the firm.

5. Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?

Naming an engagement partner when there is a subsequent issuance of a report naming a different engagement partner raises some special concerns as to the responsibility of the first engagement partner. If an engagement partner is named, he or she will likely want an opportunity to review the new report being issued. In many cases, the first engagement partner will still be with the firm, can perform the review and have no objections. However, there are situations where the first engagement partner will not be able to do such a review, for example, departure from the firm, illness or other unavailability; in these cases, it is, in the Committee's view, inappropriate to use the name of the first engagement partner. There may also be cases where the first auditor has significant questions or reservations about use of his name; this could be because of litigation or other circumstances. The firm may be satisfied it can re-issue its report, but unable to satisfy the first partner as to his or her reservations; this hardly warrants disclosure from the firm's perspective, creating a very awkward situation.

6. Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?

The Committee submitted the following comment on the PCAOB's previously released Concept Release dealing with this question:

> The Committee is concerned that naming the engagement partner could lead to harassment or personal danger to the individual; aberrational behavior is an unfortunate fact of life, and it is sometimes difficult to protect individuals from it. As stated below, the Committee is also concerned about possible litigation exposures.
>
> The Committee is opposed to a requirement to name the engagement partner. It is difficult to imagine all circumstances where there could be a threat to the personal security of the engagement partner, particularly if events causing the threat arise after he or she has already been named.

The Committee continues to have these concerns. One only has to look at recent demonstrations held at the residences of CEOs to see that aberrational behavior is real. Directors and officers named in periodic reports have direct and primary responsibility for the information in the company's reports. Auditors do not have such responsibility, and they should not be added to those subject to security risks.

Providing an exemption for an anticipated threat to personal security is problematic. It may be difficult to get a person to be willing to be an engagement partner in this circumstance. In addition, a missing signature is bound to raise questions among users of the audit report.

In addition, there is the risk of adverse publicity for the engagement partner if the client company's financial statements become a subject of press coverage. We are all aware of sensationalism of press coverage and the damage it can do, and how ineffective later clarifications by the press or the victim of adverse publicity can be. The engagement partner is far less likely to be a victim of unwarranted adverse publicity if his or her name is not in the audit report.

7. Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?

The Committee submitted the following comment on the PCAOB's previously released Concept Release dealing with this question:

> As the Concept Release points out, naming the engagement partner or having the engagement partner sign the report may, in the views of some, open up the engagement partner to additional legal liability. Unfortunately, the legal determination may well depend on the outcome of litigation, which is expensive, and the results may be inconsistent from state to state and among federal circuits.

There is nothing in the current proposed amendments that ameliorates the Committee's concerns. Even if the engagement partner technically has no additional liability if named, in the litigious environment in the U.S., it is more likely that the engagement partner would be named in a suit if his name appears as part of the audit report. This would cause an increase in costs, especially if the engagement partner decides to engage his or her own individual counsel.

Not discussed in the proposed amendments is the potential litigation exposure of other firms or persons named as participants in the audit even though the firm signing the audit report takes responsibility for that firm's or person's work. The issues are very similar to those related to the naming of the engagement partner.

The answer to this question requires a legal determination, but the Committee doubts that there is a clear answer since it is a new issue with no law directly on point. This legal determination is beyond the expertise of many accountants and auditors, state CPA societies, academics and investors who can be expected to comment on the Proposal. The PCAOB should reach out to the legal community for information on this question, but it is one that definitely needs to be answered before any aspect of the proposal is implemented.

8. What are the implications of the proposed disclosure rule for private liability under Section 10(b)?

See response to No. 7

9. Would the disclosure of the engagement partner's identity affect Section 11 liability? If so, what should the Board's approach be?

See response to No. 7. In addition, it is unclear whether including the engagement partner's name will cause that partner to be considered an "expert" for the purposes of Section 11 liability.

10. Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider?

See response to No. 7.

11. Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?

The Committee is unable to suggest a different formulation of the disclosure that would ameliorate any effect on liability, and continues to urge the PCAOB to drop its proposed requirement to name the audit partner.

B. The Proposed Amendment to Form 2

12. If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

No. The Committee believes that the PCAOB should not require disclosure of the name of the engagement partner in the audit report or any other public document.

13. If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

No. The PCAOB needs to conclude not to require that audit reports disclose the name of the engagement partner. Requiring disclosure of the name of the engagement partner in Form 2, in the face of a conclusion to not require its disclosure in the audit report, would inappropriately subvert that conclusion.

14. Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?

No. The Committee believes that the PCAOB should not require disclosure of the name of the engagement partner in the audit report or any other public document. Moreover, even if such disclosure is required, the Committee sees no merit to require any notice of change in an engagement partner. This would further tend to confuse the role of the firm engaged to perform the audit and the engagement partner. There is already extensive disclosure around any change in an audit firm. A change in the engagement partner is required every five years, so reporting that mandatory rotation would serve no purpose. Since the firm is responsible for the audit, the name of the engagement partner and any change in the engagement partner, either at the time of rotation or sooner, is of little significance; the engagement partner is just one of many resources in the audit firm that has responsibilities for performance of an audit. The engagement partner can change for many reasons of no consequence to investors, including preference of the engagement partner, changes in assignments, relocation and illness

15. A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?

No. The Committee believes that the PCAOB should not require disclosure of the name of the engagement partner in the audit report or any other public document. See response to Question 14.

III. Disclosure of Other Participants in the Audit and Referred-to Accounting Firms

A. Disclosure When Assuming Responsibility or Supervising

1. Applicability of the Proposed Disclosure

16. Is it sufficiently clear who the disclosure would apply to? If not, how could this be made clear?

The disclosure requirements seem clear. However, the Committee believes that the PCAOB should not require disclosure of the name of the engagement partner in the audit report or any other public document. As described below, the Committee should not require disclosure of other participants in the audit, except when the primary auditor is expressing reliance on the other participant.

17. Is it appropriate not to require disclosure of the individual who performed the EQR? If not, should disclosure of the engagement quality reviewer be required when the EQR is performed by an individual outside the accounting firm issuing the audit report or should the disclosure be required in all cases?

The PCAOB should not require disclosure of the individual who performed the EQR. The Committee believes that the PCAOB should not require disclosure of the name of the engagement partner in the audit report or any other public document. This belief extends to not disclosing the name of the individual who performs the EQR. That person has only limited responsibility for the conduct of the audit, so the disclosure would serve no purpose. As for disclosure if the EQR is an individual outside of the firm, this would potentially lead to confusion as to the degree of responsibility of the firm issuing the audit report for that report. Further, it may cause additional potential legal liability for the individual performing the EQR under federal and state securities statutes.

18. Is it appropriate not to require disclosure of the person that performed the Appendix K review?

Yes.

19. Is it appropriate not to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor?

Yes. See response to Question 17.

20. Would disclosure of off-shoring arrangements (as defined in the release) or any other types of arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangements should be disclosed?

No. The reason for the proposed amendments is unclear. The PCAOB has expressed concern about the practice of "off-shoring," which is very poorly defined. The definition is "a practice whereby certain portions of the audit are performed by offices in a country different than the country where the firm is headquartered," and implies that this practice has begun recently. In fact, U.S. headquartered auditing firms have been engaging offices from countries other than the

U.S. for many generations. The Committee is aware from media reports that the PCAOB has had difficulty in carrying out its inspection program of offices of U.S. headquartered firms in certain of those countries, but this is not, *per se*, indicative of any problems with the quality of those audits. The Committee is also aware from media reports of instances where quality concerns have recently been raised about the quality of a small fraction of the overall audits performed by offices in certain other countries. However, the Committee does not believe those instances are sufficiently pervasive as to provide a basis for the extensive disclosures proposed by the PCAOB. Most of the audits performed by offices in a country different than the country where the firm is headquartered have a long history of adequate quality. Disclosure of when the auditor assumes responsibility for or supervises the work of another independent public accounting firm or supervises the work of a person that performed audit procedures on the audit would imply that there is something sub-standard about that work, which is certainly not in the best interests of the firms or investors

The scope of the definition "off-shoring arrangements" in the release is very confusing. While the context of the discussion in the release is firms in other countries, the actual proposed disclosure requirement would run to any firm used by the firm issuing the audit report, even those in the headquarters country.

It is not unusual for the firm issuing the audit report to engage another firm to perform part of an audit and take responsibility for that firm's work. This is particularly common for smaller audit firms that do not have national coverage, and may be done under varying forms of arrangements ranging from formal affiliation to single engagements. Firms auditing international companies have for many years used offices in other countries to audit operations outside the firm's headquarters country. Some of these are part of an affiliated network, and are treated as part of the firm issuing the audit report. The offices in other countries are usually separate legal entities for local reasons. These arrangements are all subject to specific audit standards, whether or not the firm issuing the audit report assumes responsibility for the work of the other firm or divides responsibility for the work.

If the firm issuing the audit report assumes responsibility for the work of the other firm or other persons, the Committee believes that none of the proposed disclosures should be required. It would potentially cause confusion about the degree of responsibility undertaken by the firm issuing the audit report. In addition, companies engaging auditors are often reluctant to engage an auditor who will refer to other auditors in its report, and can be equally reluctant to tolerate the proposed disclosures where there is no divided responsibility. This would be particularly deleterious to smaller registered accounting firms who do not have national coverage.

If the firm issuing the audit report divides responsibility by making reference in its audit report to another auditor, there are already specific disclosure requirements in AU sec 543 and Rule 2-05 of Regulation S-X. The Committee has no objection to disclosure of the name and location of the other independent public accounting firms; however, since their report must be filed pursuant to Rule 2-05 of Regulation S-X except in annual reports under the Securities Exchange Act of 1934, it may be more expeditious for the Securities and Exchange Commission to amend its rules to require that the reports of the other independent public accounting firms be filed as an exhibit to the Annual Report.

The Committee is aware from media reports that there have been questions about the quality of audits done by independent public accounting firms headquartered in countries other than the U.S. The Committee is also aware from media reports that the PCAOB has had difficulty in carrying out its inspection program in some of those instances. These cases are too isolated to warrant the broad disclosures that the PCAOB is proposing. The Committee suggests that the solution is to continue negotiate extension of its inspection program outside of the U.S., and to consider appropriate action if the accounting firm issuing the audit report cannot demonstrate that has taken required steps under auditing standards to assure the quality of audit work done by other firms or other persons.

2. Details of the Disclosure Requirements

21. Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?

No. See response to Question 20.

22. Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?

The Committee does not have any specific response to this question. However, if the firm issuing the audit report assumes responsibility for the work of the other firm or other persons, the Committee believes that none of the proposed disclosures should be required.

23. Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?

The Committee does not have any specific response to this question. However, if the firm issuing the audit report assumes responsibility for the work of the other firm or other persons, the Committee believes that none of the proposed disclosures should be required.

24. Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?

As pointed out in the Committee's response to Question 20, companies engaging auditors are often reluctant to engage an auditor who will refer to other auditors in its report, and can be equally reluctant to tolerate the proposed disclosures where there is no divided responsibility. This would be particularly deleterious to smaller registered accounting firms who do not have national coverage.

25. Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?

The other firms or individuals participating in the audit may object to disclosure of their name when they have not performed sufficient procedures constituting a basis to issue their own audit report. In addition, naming the other firms or individuals may subject them to being named in litigation, along with concomitant expense regardless of the merit (or lack thereof) of the litigation. Further, other firms or individuals, especially those headquartered in countries other than the U.S. may be unwilling to permit use of their name if they have not performed an audit.

If the firm issuing the audit report assumes responsibility for the work of the other firm or other persons, the Committee believes that none of the PCAOB's proposed disclosures should be required.

3. Disclosure of Percentage of the Total Hours in the Most Recent Period's Audit, Excluding EQR and Appendix K review

26. Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?

The Committee questions why EQR hours are proposed to be excluded, as they are part of the audit. While the reviewer is not performing substantive procedures or obtaining audit evidence, the reviewer does not work in a vacuum. The reviewer usually interacts with the engagement team and may raise matters that require additional audit procedures and/ or audit evidence. As such, they are usually considered part of the audit effort, albeit technically not part of the "team."

The Committee also questions the mechanics of excluding EQR hours; is it all EQR hours at all locations, or EQR hours at locations other than those incurred directly by the headquarters audit firm? These hours are included in the proxy statement fee disclosure, so it may be easier to not exclude them for the PCAOB proposed disclosure.

Using hours as a measure of other participant's participation in the audit may not be the best measure of that participation, particularly if they are for locations outside the U.S. Hourly audit rates vary widely around the world, and audit hours are often disproportionately higher in countries where rates are low. In addition, normal annual rotation of locations where audit procedures are performed, and changes in the scope of audit procedures, can cause variations in hours from year-to-year. Both of these can distort the meaningfulness of the disclosure using hours.

In addition, other firms and individuals may be reluctant to disclose audit hours, especially if they do not disclose them to the client locally or the headquarters audit firm.

The Committee suggests that a better way to measure the extent of other participants' participation would be audit fees. While no measure is perfect, this measure would reduce the potential distortion that use of hours would cause. Further, the Committee suggests that audit fees be based on the same data that is currently used in the disclosure of audit fees under the SEC proxy rules with the addition of fees for participants other than the principal accountant. This would avoid duplication of effort that would occur if hours were used, and would utilize data that is already understood and likely more available, eliminating unforeseen questions that might arise if hours were used.

Whatever measure is used, consideration needs to be given to procedures performed by other participants beyond those required by the headquarters auditor. These are most commonly additional procedures to render a local audit report at the request of local management or a statutory audit report. The Committee questions whether information (hours or fees) related to these procedures should be included in the disclosures proposed by the PCAOB. The information may be easily isolated if performed after procedures required by the headquarters auditor, but isolation of the information if the additional procedures are performed simultaneously may be problematic.

Notwithstanding the foregoing comments, the Committee believes that if the firm issuing the audit report assumes responsibility for the work of the other firm or other persons, none of the proposed disclosures should be required as to the other firms or individuals and under whatever measure is used (hours, fees or something else), and the data for the participation of such other firm or individual should be included with data for the headquarters firm.

27. What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?

See response to Question No. 26. Audit hours may not be the best measure and use of hours coupled with changes in scope of audit procedures can be distortive. There may be difficulty in getting the data as to hours. Use of audit fees would avoid most of these challenges.

Notwithstanding the foregoing comments, the Committee believes that if the firm issuing the audit report assumes responsibility for the work of the other firm or other persons, none of the proposed disclosures should be required as to the other firms or individuals and under whatever measure is used (hours, fees or something else), and the data for the participation of such other firm or individual should be included with data for the headquarters firm.

28. Should the Board require discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosures?

No. Auditors are currently not required to disclose any information as to audit scope and procedures and the Committee does not believe any such disclosures should be required. Any disclosure as to work performed by other participants, which would be for a fraction of the audit, would be of no use to investors and would call into question the responsibility of the headquarters firm for its opinion on the financial statements resulting from the audit.

29. Would the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated be useful to users of the audit report?

No. The hours or fees attributable to the work performed subsequent to the original report date is usually minor in relation to total audit hours or fees. With a reasonable *de minimus* provision, which the Committee recommends be part of any such disclosure, it does not seem to the Committee that any such disclosure would often be required.

30. Is the example disclosure in the proposed amendments helpful? Would additional examples be helpful? If so, what kind?

The Committee believes that if disclosure is required of information for other firms or individuals for which the headquarters firm assumes responsibility, that information should be presented separately from information for individuals and firms for which the headquarters firm does not assume responsibility.

Notwithstanding the foregoing comment, the Committee believes that if the firm issuing the audit report assumes responsibility for the work of the other firm or other persons, none of the proposed disclosures should be required as to the other firms or individuals and under whatever measure is used (hours, fees or something else), and the data for the participation of such other firm or individual should be included with data for the headquarters firm.

4. Thresholds

31. Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% or greater? Would another threshold be more appropriate?

The Committee believes a *de minimus* provision to eliminate disclosure of small participants is necessary. The Committee would prefer a higher threshold, for example 5%. In addition, if the total of all other participation is below a certain *de minimus* amount, for example 10% of total hours or fees, no disclosure of the other participation should be required.

Notwithstanding the foregoing comments, the Committee believes that if the firm issuing the audit report assumes responsibility for the work of the other firm or other persons, none of the proposed disclosures should be required as to the other firms or individuals and under whatever measure is used (hours, fees or something else), and the data for the participation of such other firm or individual should be included with data for the headquarters firm.

32. Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?

The Committee takes no exception to the aggregation.

Notwithstanding the foregoing comments, the Committee believes that if the firm issuing the audit report assumes responsibility for the work of the other firm or other persons, none of the proposed disclosures should be required as to the other firms or individuals and under whatever measure is used (hours, fees or something else), and the data for the participation of such other firm or individual should be included with data for the headquarters firm.

B. Disclosure When Dividing Responsibility

33. Are the requirements to disclose the name and country of headquarters' office location of the referred-to firm sufficiently clear and appropriate?

They are clear, but not appropriate. See response to Question No. 30 as to presenting separately information for other participants in the audit for which the headquarters firm assumes responsibility vs. other participants.

34. Are there any challenges associated with removing the requirement to obtain express permission of the referred-to firm for disclosing its name in the audit report? If so, what are the challenges and how could they be overcome?

The Committee believes that permission should be obtained in all cases. First, it is a matter of common courtesy. Second, it will avoid issues around getting permission at a later date if it is required.

35. In situations in which the audit report discloses both the referred-to firm and other participants in the audit, would using different disclosure metrics (e.g., revenue for the referred-to firm and percentage of the total hours in the most recent period's audit for the other firms and persons) create confusion? If so, what should the disclosure requirements be in such situations?

The Committee believes that if the firm issuing the audit report assumes responsibility for the work of the other firm or other persons, none of the proposed disclosures should be required as to the other firms or individuals and data for the other participants should be included with data for the headquarters firm.

The Committee does not believe use of different metrics would cause much confusion.

We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

Howard Sibel

Howard Sibelman
Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants

CPAB
CCRC

CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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January 13, 2012

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington D.C. 20006-2803
USA

Dear Sir:

Request for Comment: Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits
PCAOB Rulemaking Docket Matter No. 29

The Canadian Public Accountability Board (CPAB) is pleased to comment on the Public Company Accounting Oversight Board (PCAOB) Release No. 2011-007 entitled *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (the "Proposed Amendments"). Investors and other financial statement users are calling for more transparency from the audit process and we commend the PCAOB for proposing amendments to their auditing standards that will provide disclosure of other participants in the audit.

CPAB is Canada's independent audit regulator and is responsible for overseeing firms that audit Canadian reporting issuers. Our mandate is to promote high quality independent auditing that contributes to public confidence in the integrity of reporting issuers' financial reporting. We accomplish our mandate by inspecting audit firms and audit working paper files which provides us with insights into the application of auditing standards and how they might be improved.

Disclosure of the Engagement Partner

While we understand the basis for the PCAOB's proposals to require disclosure of the name of the engagement partner in the audit report, we encourage a more holistic approach to better understand the root causes of lapses in audit quality in developing solutions to improve accountability for the audit. Greater focus needs to be given to the organizational structure of audit firms and how this can be improved to enhance audit quality. Consideration needs to be given to how accountability can be strengthened for audit firms at the engagement level, office level and national level. A more holistic approach should also consider the role of the audit committee and explore ways in which audit committees can more effectively evaluate the quality of the audit. In this respect we believe mandatory audit firm review performed with appropriate rigour by the audit committee with reporting to shareholders will improve transparency for investors and other financial statement users.

Disclosure of Other Participants in the Audit and Referred-to Accounting Firms

We believe that disclosure of the participants in the audit would provide investors greater transparency with respect to who, other than the principal auditor, was involved in the audit and to what extent. As an audit regulator, CPAB has a shared concern with the PCAOB regarding the extent of reliance by the principal auditor on work performed by other auditors as those other participants may not be registered firms or there may be legal or other regulatory barriers to them being inspected by a foreign audit regulator. As discussed in the Release, disclosure of the other participants would enable investors and other users of the audit report to determine the degree of oversight the participants are subject to and the extent to which there is publicly available disciplinary history.

The percentage of hours attributable to the audit work performed by the other participants in the audit in relation to the total hours for the audit represents a reasonable basis for the disclosures in the Proposed Amendments. However, there may also be merit in disclosing the relative percentages of the total revenues or assets that other participants were primarily responsible for auditing. Such matrix reporting would give stakeholders a broader perspective on the involvement of the other participants and would help alleviate concerns that hours alone could give an incorrect picture of the relative significance of the work of a participant to the overall audit.

We support additional disclosure requirements for “off-shoring” arrangements and encourage reconsideration of the scope out for off-shore work performed in a foreign location by another office of the same accounting firm. We believe it is important for investors to be made aware of significant audit work performed off-shore even if the offshore office is legally part of the accounting firm that signs the audit opinion. Reliance strictly on legal structure to dictate disclosure would seem contrary to the spirit of the Proposed Amendments and could negatively impact the comparability of the disclosures between accounting firms.

We appreciate the opportunity to respond to the Proposed Amendments, and would be pleased to discuss any of the above comments with you at your request.

Yours very truly,

Brian Hunt, FCA
Chief Executive Officer

CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets

January 9, 2012

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

Re: Request for Public Comment: *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*, PCAOB Rulemaking Docket Matter No. 29

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants (AICPA).

The CAQ appreciates the opportunity to respond to the Public Company Accounting Oversight Board (PCAOB or the Board) on its release, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (the Proposal). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member. We are pleased to submit for the Board's consideration our observations on the identification of the engagement partner and other participants in the audit.

I. Engagement Partner Identification

The CAQ appreciates the PCAOB's efforts to be responsive to calls from investors and other financial statement users for further transparency into the audit. However, we do not believe that identification of the engagement partner will result in any incremental engagement partner accountability, as engagement partners are already held accountable to multiple parties as detailed below. Additionally, while we recognize that it is not the PCAOB's intent to increase an individual engagement partner's liability, and appreciate the Board's request for comment on specific liability concerns, we believe the PCAOB should itself pursue a further understanding of related liability implications and seek necessary clarification from the U.S. Securities and Exchange Commission (SEC) on resulting consent requirements. Should the Board proceed with the Proposal, we believe engagement partner identification in Form 2, rather than the audit report, would be a more appropriate approach, as discussed more fully below.

a. Request for Perspectives on Accountability

The Proposal requests comment on whether engagement partner identification would increase the engagement partner's sense of accountability. PCAOB standards require the independent auditor to exercise due professional care in the planning and performance of the audit and preparation of the audit report. Engagement partners are held accountable to their firm, audit committees, regulators, and investors. As described below, these multiple layers of accountability provide a significant incentive for engagement partners to conduct high quality audits in accordance with professional standards.[1]

Accountability to the Firm and Partners within the Firm – Engagement partners are held accountable to the firm partnership through various quality control processes[2] which provide that the firm and its personnel, including the engagement partner, comply with applicable professional standards and the firm's standards of quality. In complying with quality control requirements, firms maintain policies and procedures that:

- Promote an appropriate "tone at the top" and culture at the firm such as codes of conduct and related training;
- Foster and monitor compliance with relevant ethics requirements and independence standards set out by the PCAOB, the SEC, and others;
- Reduce the likelihood of the firm accepting or continuing an engagement with a public company whose management lacks integrity;
- Appropriately assign engagement team personnel based on their skill and experience, including provision for appropriate supervision within the team; and
- Provide that the design and execution of the audit engagement meets applicable professional standards, regulatory requirements, and the firm's standards of quality, for example, policies that set forth requirements related to consultations inside or outside the firm, use of specialists, and coordination and supervision of work performed by other offices and firms.

Importantly, compliance with these policies and procedures is monitored[3] through internal firm inspection programs and other firm monitoring processes. Engagement partner accountability for the conduct of the audit is also reinforced through the engagement quality review[4] and performance evaluation processes.

Accountability to Audit Committees – The audit committee is responsible, under the Sarbanes-Oxley Act of 2002, for appointing, compensating, and overseeing the auditor, and pre-approving all audit and non-audit services provided by the audit firm. In addition, the auditor is required to communicate certain significant matters to the audit committee.[5] This authority provides the audit committee with the ability to hold the engagement partner directly accountable for the performance and conduct of the audit.

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[1] See also CAQ comment letter in response to PCAOB *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* for further views regarding engagement partner accountability: http://www.thecaq.org/newsroom/pdfs/CAQCommentLetter-EngagementPartnerSignature.pdf
[2] See PCAOB Interim Quality Control Standards.
[3] See PCAOB QC Section 30, *Monitoring a CPA Firm's Accounting and Auditing Practice.*
[4] See PCAOB Auditing Standard No. 7, *Engagement Quality Review.*
[5] See PCAOB Interim Auditing Standard, AU 380, *Communication with Audit Committees* and PCAOB *Proposed Auditing Standard on Communications with Audit Committees and Related Amendments to PCAOB Standards*.

Accountability to Regulators – PCAOB professional standards clearly articulate the engagement partner's accountability for the conduct and quality of the audit as well as the critical importance of meeting professional responsibilities. In this regard, partners are accountable for the quality of their audits to the PCAOB through inspections, disciplinary and enforcement proceedings, the SEC through enforcement proceedings, State Boards of Accountancy through licensing authority, and other state and federal regulators. Determinations of improper professional conduct can lead to the censure, suspension, or bar of an engagement partner's ability to appear or practice before the SEC or to be associated with a registered public accounting firm, and result in monetary penalties. Findings of misconduct by State Boards of Accountancy can result in the suspension or revocation of an engagement partner's license, which would prevent a partner from practicing as a certified public accountant.

Accountability to Investors – Investors have a number of ways to hold audit firms and engagement partners accountable. For example, the engagement partner is often present at the annual shareholder meeting to respond to questions. At this meeting, investors often have the ability to ratify the appointment of a registered public accounting firm as a public company's auditor. In addition, investors can influence the composition of an issuer's board of directors, which, in turn, affects the composition of the audit committee responsible for oversight of the external auditor in carrying out its fiduciary duty to investors. Finally, investors have a number of avenues under federal and state securities laws to initiate civil litigation against audit firms related to the audit of an issuer's financial statements.

b. Request for Perspectives on Liability

The Proposal seeks comment specifically regarding the implications of engagement partner identification on liability under Section 10(b) and Rule 10-b(5) of the Securities Exchange Act of 1934 (Section 10(b)) and Section 11 of the Securities Act of 1933 (Section 11). We agree with the Board that a further assessment of the legal implications of this Proposal is important, and urge the Board to resolve this issue before moving forward.

In its 2009 *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* (Concept Release), the Board stated that its "intent with any signature requirement would not be to increase the liability of engagement partners." This was reiterated in the Proposal which states "the intent…was ….not to increase the liability of engagement partners." We have concerns regarding the uncertainty of liability implications of the Proposal, most importantly under Section 11. The CAQ believes the Board should perform a liability assessment under Section 10(b), Section 11 and state law, including consideration of legal costs associated with the proposed benefits of additional transparency. Most importantly, the Board should also coordinate with the SEC to clarify the implications of the proposed requirements on Section 11 liability.

Section 11 **-** As the PCAOB notes in its Proposal, commenters raised concerns that the proposed signature requirement in the Concept Release would increase liability for engagement partners in actions brought pursuant to Section 11, which allows for claims against "every accountant" who "has with his consent been named" as "having prepared or certified" any part of a registration statement or any report or valuation used in a registration statement.[6] Liability under Section 11 can arise not only where the accountant signs the report, but also where the accountant consents to being named in it.[7] Significantly, Section 7 of the Securities Act of 1933 requires issuers to file the consent of any accountant who is named as having prepared or

[6] 15 U.S.C. § 77k(a)(4).
[7] Compare § 77k(a)(1) (imposing liability on "every person who signed the registration statement") with § 77k(a)(4) (imposing liability on every accountant who consented).

certified any part of the registration statement.[8] Therefore, even if the engagement partner does not sign the report, there would be an increase in liability if it is determined that engagement partners must file a consent pursuant to Section 7 and Rule 436 based on the disclosure of his or her name. If the Board determines to require identification of the engagement partner in the audit report, the SEC should, prior to approving the PCAOB standard, make it clear by rule that any disclosure requirement would not increase liability under Section 11 and that consent pursuant to Section 7 and Rule 436 for engagement partners is not required. We believe that without further clarification from the SEC, liability risk may increase should engagement partners be required to consent under Section 7 and Rule 436 based on his or her identification in the audit report, which would be inconsistent with the Board's stated intent of the Proposal.

Section 10(b) - As the Board notes in the Proposal, a number of commenters raised concerns that the proposed engagement partner signature requirement in the Concept Release would result in increased liability for engagement partners under Section 10(b). Since that time, the Supreme Court has clarified what must be shown to prove that an individual or firm made an untrue statement of a material fact in violation of Section 10(b) and 17 C.F.R. § 240.10b-5 (Rule 10b-5).[9] The Court held that the maker of a statement is the "person or entity with ultimate authority over the statement, including its content and how to communicate it. Without control, a person or entity can merely suggest what to say, not "make" a statement in its own right. One who prepares or publishes a statement on behalf of another is not its maker. …[A]ttribution within a statement or implicit from surrounding circumstances is strong evidence that a statement was made by—and only by—the party to whom it is attributed."[10] It is conceivable that some courts will read *Janus* in such a way that merely naming an engagement partner in an audit report will be sufficient to conclude that the engagement partner made the statements in the audit report. In addition, plaintiffs can be expected to assert claims against named engagement partners despite the *Janus* decision. The cost to defend against such claims until the case law becomes settled on these issues could be significant.[11]

State Law – The Proposal notes that in response to the Concept Release, commenters raised concerns that the proposed engagement partner signature requirement could result in increased liability under state law. The CAQ believes that legal implications under state law are also an important consideration. If the Board adopts the Proposal, a state court may reach the conclusion that a named engagement partner or participating firm in the audit report is liable under the state's blue sky laws. Additionally, unlike federal securities laws, a number of states' blue sky laws recognize causes of action by a holder of securities who claims to have relied on false statements. Plaintiffs also could seek to assert state common law claims against named engagement partners and participating firms. As a result, even without reference to ultimate liability, identification of the

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[8] 15 U.S.C. § 77g(a); *see also* 17 C.F.R. 230.436(b) (Rule 436(b)). Rule 436(b) provides that, "[i]f it is stated that any information contained in the registration statement has been reviewed or passed upon by any persons and that such information is set forth in the registration statement upon the authority of or in reliance upon such persons as experts, the written consents of such persons shall be filed as exhibits to the registration statement."
[9] See *Janus Capital Group, Inc. v. First Derivative Traders (Janus)*, 564 U.S. ---, 131 S.Ct. 2296 (2011).
[10] Id. at 2302.
[11] A proper application of the Supreme Court's decision in *Stoneridge Investment Partners, LLC v. Scientific-Atlanta, Inc. (Stoneridge)*, 552 U.S. 148 (2008), could preclude what some courts refer to as "scheme liability" or "associational liability" under Rule 10b-5(a) and (c) for engagement partners disclosed in the audit report pursuant the Board's Proposal. In *Stoneridge*, the Court observed that reliance by a plaintiff on the allegedly deceptive acts is an essential element of private claims under Section 10(b), and held that there is no reliance, and hence no liability, when the link between that third party's actions and the issuer's misrepresentation is too remote or attenuated. See id. at 159-62. However, it is possible that some courts will read *Stoneridge* in such a way that disclosure will expose engagement partners to more associational liability litigation whenever there is any doubt involving the issuer's financial statements. "[E]xtensive discovery and the potential for uncertainty and disruption in a lawsuit allow plaintiffs with weak claims to extort settlements from innocent companies. . . . [C]ontracting parties might find it necessary to protect against these threats, raising the costs of doing business. Overseas firms with no other exposure to our securities laws could be deterred from doing business here." Id. at 163-64.

engagement partner and participating firms could increase the number of state law claims brought against partners and firms.

For these reasons, and the Board's stated intention of not increasing the liability of engagement partners, the CAQ believes it is incumbent upon the PCAOB to analyze the legal implications of the requirement and perform an appropriate cost-benefit analysis as part of its deliberative process on the Proposal.

c. Form 2 Reporting

If the PCAOB determines that the name of the engagement partner should be provided, we believe that reporting only in Form 2 is more appropriate than reporting in the audit report. As the Board notes in its Proposal, Form 2 is a more convenient and accessible form of reporting as compared to the audit report. Identification in only Form 2 could also mitigate concerns noted above regarding engagement partner liability under Section 11, Section 10(b), and state law. In addition, because Form 2 is a periodic administrative filing, identification only in Form 2 could reduce the likelihood of investors misunderstanding the role of the engagement partner compared to that of the audit firm in issuing the audit report.

d. Form 3 Reporting

The Proposal notes that a change in engagement partner before the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed and asks whether the firm should be required to file a special report on Form 3 in these instances, and possibly disclose the reason(s) for the rotation. The CAQ believes that requiring Form 3 reporting in these circumstances may present practical challenges and is unnecessary. This is consistent with views expressed by certain PCAOB Standing Advisory Group (SAG) members at the November 2011 meeting.[12] Filing a Form 3, without a description of the reason for the change, as suggested in the Proposal, may result in unproductive market speculation. However, we also believe it would be inappropriate in certain cases due to privacy laws, to describe the reason for an early rotation resulting from health concerns or termination of a partner for reasons other than audit quality.

e. Other Considerations

In evaluating whether to require the identification of the engagement partner in the audit report or in Form 2, the Board should also consider the risk that users may reach inappropriate conclusions about the engagement partner, or the quality of the audit without appropriate consideration of other relevant factors. For example, inappropriate inferences may be drawn based on circumstances about a company that may not be within the control of the engagement partner or directly relate to the performance of that engagement partner or the quality of the audit, such as bankruptcy filings, going concern uncertainty, adverse analyst coverage, etc. Additionally, users may also draw inappropriate inferences about the expertise and experience of the engagement partner without proper consideration of the important contributions of others involved in the audit (e.g., participation of other partners, consultations, use of specialists) or consideration of the partners' experience gained outside the public company audit context that would not be subject to disclosure. We believe that possible reputational risk resulting from engagement partner identification may result in partner reluctance to serve on the audits of certain issuers (e.g., high risk issuers). This effect may be more pronounced at firms that derive a larger percentage of revenue from private company audits (i.e., some

[12] See November 10, 2011 SAG transcript excerpt related to the Proposal: http://pcaobus.org/Rules/Rulemaking/Docket029/11102011_SAG_Transcript_Excerpt.pdf

smaller firms) or smaller, regional offices of larger firms that have fewer partners available to serve on audits of public companies, which may impact their ability to compete for audits of public companies.

II. Identification of Other Participants in the Audit

The Proposal contemplates requiring disclosure of the name, location and extent of participation of certain other independent accounting firms and other persons not employed by the auditor, when the auditor assumes responsibility for or supervises the work of those who took part in the most recent period's audit. The CAQ supports providing additional information to investors to enhance user understanding of the auditor's role and responsibilities and the audit process, including certain disclosure regarding the use of other firms in the audit,[13] however we are concerned that the proposed approach could diminish investor confidence in the role of the principal audit firm in supervising and assuming responsibility for the work performed by other participants in the audit and achieving a high quality audit. Should the Board move forward with this Proposal, we set forth our views regarding potential implementation challenges, suggest other approaches for disclosure of participation that mitigate potential unintended consequences of the Proposal, and discuss important liability considerations.

a. Use of a Metric

The Proposal would require the auditor to state the percentage of hours attributable to audits or audit procedures performed by certain other participants in the audit in relation to the total hours incurred for the most recent period's audit. The Proposal identifies total hours in the most recent period's audit as "the most appropriate quantitative measure of the other participants' relative participation in the audit." While we understand the reasoning behind using a metric to signify to investors the level of participation in the audit, we believe there are implementation challenges associated with any metric intended to convey participation. Therefore, we set forth below other possible disclosure approaches should the Board pursue utilizing hours as a metric.

Possible implementation challenges associated with the use of audit hours as a metric include accounting for audit hours incurred performing multi-purpose testing (e.g., statutory audits of subsidiaries performed abroad where the same work is also utilized for the consolidated issuer audit), and calculating precise participation percentages for other audit participants at the audit completion stage.

The Proposal questions whether a discussion of the nature of the work performed by other participants in the audit, in addition to the extent of participation, should be a required part of the disclosure. The CAQ does not believe the nature of work performed by other audit participants should be disclosed for the following reasons:

- It would be difficult to describe the nature of work performed succinctly without further context derived from dialogue with the auditor,
- Succinct descriptions of the nature of work would not adequately convey significant and often complex audit procedures, and
- More thorough descriptions of the nature of work performed could contribute to "disclosure overload" and detract from the objective of providing useful information to investors.

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[13] See CAQ comment letter in response to PCAOB *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards*: http://www.thecaq.org/newsroom/pdfs/CAQCommentLetter-AuditorsReportingModel.pdf

The CAQ agrees it is appropriate to exclude from identification individuals performing the engagement quality review, Appendix K review, persons with specialized skill or knowledge in a particular field other than auditing, and persons employed or engaged by the company who provided direct assistance to the auditor (e.g., internal auditors) for the reasons set forth in the Proposal.

b. Threshold & Participation Rate

The Proposal sets forth a three percent disclosure threshold for the identification of other participants in the audit based on total hours in the most recent period's audit. The name of those participants with a participation rate of three percent or more would be individually disclosed along with their respective participation rate. Those not meeting the three percent threshold could be disclosed either individually with their respective participation rate, or collectively, with the participation rate for the entire group disclosed. In the Proposal, the Board noted the intent of this requirement is to provide the most meaningful information about participants in the audit to investors and other users of the financial statements.

The CAQ provides suggestions below for the Board's consideration that are consistent with the intent of the Proposal to provide transparency into other participants and their involvement in the audit while minimizing possible unintended consequences of the proposed approach. The CAQ believes it would be beneficial, regardless of the approach followed to identify other audit participants in the audit report, to require additional disclosure in the audit report related to the principal auditor's responsibility, other audit participant's responsibility, and a description of the accounting firm network structure (if applicable), as recommended in the CAQ's September 30, 2011 comment letter to the Board.[14]

Higher Threshold for Disclosure – We believe a threshold above three percent (e.g., 10 or 20 percent) would be more consistent with the Board's intent to provide the most meaningful information about participants in the audit to investors. This is consistent with views expressed by investor and preparer representatives during the November 2011 PCAOB SAG meeting discussion on this Proposal.[15] A higher threshold also would be consistent with existing U.S. Generally Accepted Accounting Principles as well as SEC regulations intended to guide meaningful disclosure to investors regarding relevant financial reporting matters and PCAOB rules which set a threshold for the level of audit work deemed significant enough to require PCAOB registration and inspection.

SEC Regulation S-K Item 101(d) and FASB Accounting Standards Codification (ASC) 280, *Segment Reporting,* require disclosure of information, if material, about both assets and revenue by geographic area, including revenues from an individual foreign country. For purposes of assessing materiality to comply with this disclosure requirement, registrants and auditors often utilize a quantitative threshold of 10 percent of consolidated external revenues or long-lived assets as well as any qualitative considerations, if applicable. ASC 280 also sets forth a 10 percent threshold to guide disclosure of separate information about an operating segment. Additionally, FASB ASC 932, *Extractive Activities – Oil and Gas* utilizes a similar approach for the determination of whether an entity is regarded as having significant oil and gas producing activities. Furthermore, PCAOB rules require registration of any firm that plays a "substantial role" [16] in the preparation or furnishing of an audit report with respect to any issuer. "Substantial role" is defined as any firm that: 1)

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[14] See CAQ comment letter in response to PCAOB *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards*:
http://www.thecaq.org/newsroom/pdfs/CAQCommentLetter-AuditorsReportingModel.pdf

[15] See November 10, 2011 SAG transcript excerpt related to the Proposal:
http://pcaobus.org/Rules/Rulemaking/Docket029/11102011_SAG_Transcript_Excerpt.pdf

[16] See PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms* and PCAOB Rule 1001(p)(ii) Definitions of Terms Employed in Rule, *Play a Substantial Role in the Preparation or Furnishing of an Audit Report.*

performs material services (i.e., services for which the engagement hours or fees constitute 20 percent or more of the total engagement hours or fees) that an accounting firm uses or relies on in issuing all or part of its audit report with respect to any issuer, or 2) to perform the majority of the audit procedures with respect to a subsidiary or component of any issuer the assets or revenues of which constitute 20 percent or more of the consolidated assets or revenues of such issuer necessary for the principal accountant to issue an audit report on the issuer.

Ranges to Indicate Participation – For those participants meeting the disclosure threshold, the CAQ believes the extent of participation in the audit should be indicated through inclusion in a range (e.g. 10-20 percent, or 20-30 percent) as opposed to disclosure of a precise participation percentage by participant. This approach also provides transparency but mitigates the administrative burden that the proposed approach could impose on the audit engagement team by requiring precise calculations and related reporting of participation rates for each audit participant during the critical stage of audit completion.

c. Liability Considerations

The CAQ believes that the proposed requirement to disclose other participants in the audit report carries with it a potential increase in liability risk under Section 11, Section 10(b), and state law.

Section 11 **-** The CAQ has concerns regarding the liability implications of the Proposal under Section 11 which extend to the identification of participating firms. Prior to moving forward with this Proposal, the CAQ believes the Board should coordinate with the SEC to clarify that consent pursuant to Section 7 and Rule 436 for participating firms is not required.

Section 10(b) **-** As with engagement partners, the CAQ believes that some courts may read *Janus* in such a way that merely naming a participating firm or accountant in an audit report will be sufficient to attribute the statements made in the audit to that firm or accountant. It also is conceivable that some courts will read *Stoneridge* in such a manner that the increased visibility brought on by the disclosure of other participating firms in audit reports will expose those firms to more associational liability litigation. Requiring the disclosure of the names of other participating firms could result in those firms becoming the subject of litigation and regulatory actions whenever there is any doubt involving the issuer's financial statements. Firms are likely to incur increased costs associated with such proceedings.

State Law –The CAQ believes that legal implications under state law resulting from the identification of other participating firms are also an important consideration. Under a state's blue sky laws, a state court may determine a named participating firm is liable. Additionally, unlike federal securities laws, a number of states' blue sky laws recognize causes of action by a holder of securities who claims to have relied on false statements. Similar to named engagement partners, plaintiffs also could seek to assert state common law claims against participating firms. As a result, even without reference to ultimate liability, identification of participating firms could increase the number of state law claims brought against partners and firms.

The CAQ believes that uncertainty regarding potential liability resulting from the identification of participating firms could result in the reluctance by firms to participate in the audits of public companies. While this could occur at a larger firm level, we believe this effect would be more pronounced in the smaller firm environment where such firms may be unable to leverage a network or affiliate relationship, impacting the ability of smaller firms to compete for audits of public companies. This adverse effect on competition could be exacerbated should investors prefer, and exert pressure on audit committees to engage auditors that can leverage the work of other network firms in the conduct of the audit (i.e., larger firms) over those that cannot.

The CAQ reiterates its belief that the PCAOB should conduct a thorough legal analysis and appropriate cost-benefit analysis as part of further deliberations related to this Proposal.

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The CAQ acknowledges the Board's efforts to be responsive to calls from investors and other financial statement users for further transparency into the audit through this Proposal. However, we do not believe identification of the engagement partner in the audit report will improve accountability. Further we believe liability implications of the Proposal, most importantly under Section 11, must be carefully considered. Should the Board move forward with this Proposal, we believe engagement partner identification in only Form 2, rather than the audit report, would be a more appropriate approach.

We support providing additional information to investors to enhance the understanding of the auditor's role and responsibilities and the audit process, including certain information regarding the use of other firms in the audit. Should the Board move forward with identifying other participants in the audit report, we believe the Board should consider the other possible approaches that mitigate potential unintended consequences of the Proposal, and carefully analyze the liability considerations associated with the Proposal.

The CAQ appreciates the opportunity to comment on the Proposal and welcomes the opportunity to respond to any questions regarding the views expressed in this letter.

Sincerely,

Cynthia M. Fornelli

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc:

PCAOB
James R. Doty, Chairman
Lewis H. Ferguson, Board Member
Daniel L. Goelzer, Board Member
Jay D. Hanson, Board Member
Steven B. Harris, Board Member
Martin F. Baumann, Chief Auditor

SEC
Chairman Mary L. Schapiro
Commissioner Luis A. Aguilar
Commissioner Daniel M. Gallagher
Commissioner Troy A. Paredes
Commissioner Elisse B. Walter
James L. Kroeker, Chief Accountant
Brian T. Croteau, Deputy Chief Accountant

From: Todd Glassey [mailto:tglassey@certichron.com]
Sent: Thursday, October 06, 2011 5:05 PM
To: Comments
Subject: Commentary on additional transparency in PCAOB and other related filings: GOOD IDEA

Comments on Transparency and Ethical Disclosure in all Reporting Models before PCAOB

1. Summary

PCAOB is proposing an amendment to the Audit Practice standards which will mandate and allow for the following

- &#61623 **Disclosure of signing partner within the firm**. We would propose extending that to include a disclosure as to all key personnel in the Audit Team in the Audit by role and responsibility
- &#61623 **Functional Statement of Responsibility** at the Managing or Audit Partner Level – a specific affidavit not from the Audit Firm itself, but its Audit Partner signing for that Audit would also be in order.

Why this is becoming necessary is in instances where an Audit Company refuses to produce documents or disclose who its personnel were in any specific audit, their roles, or in obtaining untainted copies of the work product produced. To date SEC and FINRA rely on the retention requirements in professional services issued through industry certifications including but not limited to CPE, CFE, CISM, CISA, CISSP, CIFI, as well as a myriad of others.

1.1. Firm-level refusal to provide FINRA or SEC documents makes it necessary to identify the parties involved with the Audit

That means when they (FINRA and through them the US Courts) cannot identify the specific auditors and responsible parties for attestations their only targets are the corporate shields of the Audit Companies themselves and as the D&T matter in China has proven PCAOB needs to be able to fully control all aspects of all regulated practices it is the regulating authority for, or it simply cannot fulfill its charter therein.

2. Our finding

As a credentialed trust expert I find these are key disclosure points for any and all filings. That in all matters before FINRA, all parties involved must be identified fully. Their roles documented and their access to key client data also managed to prevent 'leakage'. We believe that the changes are necessary and will provide the public and investors with more transparency. We believe that they could also be extended to include more access to Audit Practice materials and Work Product.

The same should expand past FINRA controlled matters to that of all SEC controlled entities and the reason is for creating a complete evidence record of the Audit Practice, its Architects, and their Work-Papers and Design Notes on that Audit and Policy Compliance Model.

As to why these are necessary the next section will talk to the issues of trust in a mechanical sense but it all boils down to economics and properly empowering the Investor's to make educated decisions. For instance there are top-tier audit companies which provide a superior grade of information practice and governance for their clients. This is an important asset and value-add for that investor, but it also is an important aspect of the larger/longer term investments and especially those of Institutional Investors who are 'in for the long haul' as it were.

These entities need to know who the people underwriting the mechanical credibility of the operating entity are and why they should believe what the entity's officers are saying to them in the investment prospectus.

Since these aspects of investment were previously all done by mouth and among the wall-street insiders it is now appropriate that all filing disclosures including where appropriate all FINRA mandated (or other EDGAR) Filings pursuant to any regulatory practice should include a registration statement as to who is attesting to the statement.

3. AS-15 brings new requirements into this as well

It is in closing this commentary that AS-15 requires evidence control of all aspects of the Audit and that would include this new level of disclosure one would think for the following reasons:

1. Auditing is the Trust-Anchor for the Work Processes it certifies

The practice of external review is key to providing integrity in all operating practices. It is a new level of commodity which Investors have come to rely on and now want more resolution into the Audit Practice and what is being done internally to protect and streamline internal practices. These become not only statements of integrity in operations but also statements in how the larger transparency practice is enforced.AS-15 means that the Trust Factors of the Audit, its content and its implementation staff must be fully disclosed as part of the Evidence Statement for any Audit Practice under that framework.

2. Auditors and their Certifications form a formal contract with the Audit Clients for Attestations of Fact from the Auditor

Most all credentialed auditors hold a contract with their certification provider, generally a fraternal or industry oversight association like the AICPA. Likewise other professional organizations like ISA, ISACA, and ISC2 as well as others in the Fraud Management and Detection Areas all provide key credentialed professionals for specific roles within the Governance and Regulatory Reporting Reviews required for PCAOB impacted entities.

These contracts include NDA's which allow the certified professional access to the client's data properly protected as well as an oath to uphold the standards and ethical mandates the credentials award requires. Because of the exposure to this data it is reasonable that to PCAOB all team members be disclosed in an internal filing.It is important for PCAOB to understand where the customers data is and who has had access to it as part of the Audit. This information is already readily available on the 'underground' as it were so that is not a reasonable excuse for not providing it to the people who would need to rely on that auditors credential or trust assertion.

Possibly for security reasons it may make sense to not disclose that individual-participation data except to PCAOB known entities, like Industry Analysts but that is a decision for another round of reviews and not this matter.

Many of these credentials are based on experience and education as well to include accounting, forensic analysis, law enforcement and other backgrounds as a point of diversity in the audit practice as well, so for these reasons herein, it is a key important value-add to disclose all aspects of the Audits being performed and their staff members.

3. What and How "Fact" is disclosed is a key issue in building audit pro formas'

Today the scope of the Audit and what was actually brought into the Audit as well as what is planned for remediation or policy changes is important in judging the stability and integrity of an investment target. We need to provide mechanical assurance to investors that their review was properly done and that internal diligence is proven out by the reports issued. Who attests to this is key and while many firms have stood behind the idea that their name and license is what is on-line it is at the individual level as well as the firm level that FINRA discipline is issued and as such disclosure of that same level of granularity is key in the Audit Filing itself.

4. Complete Internal Disclosure

As a supporting concept, Internal Disclosure is a new part of Transparency in the Financial Context. That's a lot of capped words and what it means is that through technology and practice, where and how information gets to us is important. We need to understand things as a black box when we want that level of information and with full transparency in all other instances. It is through a transparency process policy such as the one proposed that this will be put into place.

5. Conceptually Audit Project Managers are equivalent to Fund Managers in the realm of Fund operations.

The Audit Practice itself adds value to the entities they audit. We have discussed this previously but its an important concept since it also pertains then to the idea that the Auditor brings value – almost a celebrity to the process and while that is not the exact term we would settle on, the idea is that some Auditors are better than others and that the Auditor themselves has an impact on the entity.

4. Finally in closing this letter

Audit and what it provides is a key part of transparent business. Auditors provide key mid-course corrections to certain business practices and so which corrector is applying business-twist to the CFO's or COO's operating practices is important as well. The same will be true for instances where one Auditor has been found to be deficient or guilty of some fraud in the audit or practice therein. The ability to tie that party to other audits is of key importance to investors and is a part of the transparency they deserve.

Todd Glassey CISM CIFI
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Todd S. Glassey - CISM CIFI
CTO Certichron Inc

Setting the global standard for investment professionals

January 23, 2012

PCAOB
Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 2006-2803

Reference: PCAOB Rulemaking Docket Matter No. 29, *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*

CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) *Concept Release on Requiring the Engagement Partner to Sign the Audit Report.*

CFA Institute is comprised of more than 100,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

CFA Institute Strongly Supports PCAOB Efforts To Improve Auditing Standards

CFA Institute supports the efforts of the PCAOB to improve the integrity and transparency of the audit of financial reports. Improvements in auditing standards are essential to restoring and maintaining confidence in the financial statements used by investors to make capital allocation decisions. We strongly support the proposed rule to require disclosure of the engagement partner and the PCAOB initiative to improve the auditor's standard reporting model. We view these steps as positive for investor protection.

Furthermore, we encourage the PCAOB to require disclosure of the extent to which the financial statements are audited by auditing firms other than the primary auditor so that investors have a better understanding of the role of auditors that may not be subject to PCAOB review. Disclosure should be required when other auditors are responsible for subsidiaries accounting for more than 10% of gross assets, equity, revenue, or net income.

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[1] With offices in Charlottesville, VA, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 100,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom nearly 83,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 57 countries and territories.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

Audit Firms Should Lead Rather Than Oppose Efforts to Improve Their Public Image

The audit profession has a public perception problem, most notably in the eyes of investors, as a result of well-publicized audit failures and ongoing concerns regarding auditors' role in firms affected by the financial crisis. Substantial surprise losses, frauds, and the lack of transparency have diluted investor confidence in the independent audit in recent years and investors increasingly question auditor independence, objectivity and professional skepticism. Bold actions have been proposed and need to be taken by the PCAOB, ideally with the support of the audit profession, to restore confidence in the independent audit. Auditors should lead the effort by urging the PCAOB to make reasonable and necessary changes to improve the quality of audits and the public's perception of their quality. Leading the effort rather than resisting reasonable proposals would send a strong signal to the user community that the audit profession recognizes the problem and wants to play a constructive role in a comprehensive solution. Substantial changes to the standard auditor's report, not mere tweaks, and disclosure of the engagement partner will help restore investor trust in the profession. We emphasize that investors ultimately pay for audits with scarce resources and, therefore, the needs of investors should be preeminent in the PCAOB decision to require disclosure of the engagement partner signature.

We also believe that, given the audit problems noted above, the PCAOB (in cooperation with the United States Securities and Exchange Commission) should continue to enhance its enforcement efforts in addition to strengthening auditing standards. The combination of better standards and stronger enforcement should serve to protect investors.

Disclosure of Engagement Partner Should Improve Actual and Perceived Quality of Audits

We disagree with the stated view of audit firms that identification of the engagement partner will not enhance audit quality. This is not simply a matter of enhancing audit quality, which we believe will indeed occur, but rather one of improving transparency and enhancing personal professional accountability; we believe that disclosure of the engagement partner will do both. Engagement partner signatures are already required in some countries outside of the United States, and we believe that requirement enhances transparency and personal accountability for the audits conducted in those jurisdictions.

Disclosure of the engagement partner as the individual with the primary responsibility for the audit distinguishes him or her from the client service partner who may exert influence regarding technical audit matters to preserve client relationships. We believe that disclosure of the engagement partner will strengthen that partner's ability to prevent pressures from others within the audit firm who may otherwise inappropriately influence the outcome of key audit related decisions.

We also believe that the engagement partner, as the primary individual responsible for the audit, should be held to the same level of personal accountability as senior executive officials at the company, such as the Chief Executive Officer and Chief Financial Officer. Disclosing the engagement partner in the public domain as the principal individual with responsibility for the audit will bolster investor confidence in the financial statements and the audit. Conversely, when a company audit turns out to be deficient, investors may view other audits for which that partner is responsible with more skepticism.

Comment on Actual Signature vs. Disclosure
We do not object to the proposed approach of simply disclosing the engagement partner in lieu of the actual signature since we believe that simple disclosure would provide the same benefits of improving transparency and enhancing professional accountability.

Disclosure of Other Participants in the Audit
In March 2010, CFA Institute asked investors whether they would like to have more information about who is performing the audit and how much of the audit they performed. An overwhelming majority (91 percent) agreed that, in cases where there is more than one auditor, the identities and specific roles of other auditors should be disclosed. Disclosure should be required when other auditors are responsible for subsidiaries accounting for more than 10% of gross assets, equity, revenue, or net income. Required disclosure should include the name and location of the subsidiary and the name of the auditor. Separate disclosure should be required for each case meeting the significance test.

We believe that these disclosures are necessary to make clear to investors which audit firm (or firms) bears responsibility for the audit of the financial statements on which investment decisions are based.

Closing Remarks

We thank the PCAOB for the opportunity to express our views on this proposal. If the PCAOB has questions or seek furthers elaboration of our views, please contact Matthew M. Waldron by phone at +1.212.705.1733, or by e-mail at matthew.waldron@cfainstitute.org.

Sincerely,

/s/Kurt N. Schacht
Kurt N. Schacht, JD, CFA
Managing Director
Standards & Financial Markets Integrity Division
CFA Institute

/s/ Gerald I. White
Gerald I. White, CFA
Chair
Corporate Disclosure Policy Council

cc: CFA Institute Corporate Disclosure Policy Council

Council of Institutional Investors
The Voice of Corporate Governance

Via Email

January 5, 2012

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006-2803

Re: Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2 (PCAOB Rulemaking Docket Matter No. 29)

Dear Office of the Secretary:

I am writing on behalf of the Council of Institutional Investors (Council), a nonprofit association of public, corporate, and union employee benefit plans with combined assets of over $3 trillion. Member funds are major shareowners with a duty to protect the retirement of millions of American workers.[1] The Council appreciates the opportunity to provide input to the Public Company Accounting Oversight Board's (PCAOB or Board) Rulemaking Docket Matter No. 29 on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (Release).[2]

Disclosure of the Engagement Partner

The Council wishes to thank the PCAOB for its responsiveness to our September 19, 2011 letter (September Letter).[3] As you are aware, the September Letter requested that the Board promptly make a decision about whether to pursue a rulemaking proposal addressing the 2008 recommendation of the Department of the Treasury's Advisory Committee on the Auditing Profession (ACAP) that the PCAOB "undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report."[4]

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[1] For more information about the Council of Institutional Investors (Council) and its members, please visit the Council's website at http://www.cii.org/about.

[2] Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2, PCAOB Release No. 2011-007, PCAOB Rulemaking Docket Matter No. 29 (Oct. 11, 2011), http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf [hereinafter Release].

[3] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Office of the Secretary, PCAOB 4 (Sept. 19, 2011), http://pcaobus.org/Rules/Rulemaking/Docket034/015_CII.pdf ("We would respectfully request that the Board either promptly release a timeline for issuing a proposed rule, or provide investors and the public with an explanation as to why this important improvement is no longer under active consideration.").

[4] The Department of the Treasury, Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury VII:19 (Oct. 6, 2008), http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf.

As we indicated in the September Letter:

> [The Council strongly supports,] consistent with the recommendation of the [ACAP] and the existing requirements of the European Union's Eight Directive, . . . requiring the engagement partner's signature on the auditor's report. We continue to endorse the findings of the [ACAP] that the 'engagement partner's signature on the auditor's report would increase transparency and accountability.'[5]

The Council's continued backing of a final standard requiring the signature of the engagement partner in the audit report is derived, in part, from two membership approved policies: (1) our Statement on Financial Gatekeepers (Gatekeepers Statement);[6] and (2) our Statement on Independence of Accounting and Auditing Standard Setters (Independence Statement).[7]

The Gatekeepers Statement reflects our members' views that, in light of the global financial crisis and other recent financial scandals, continued reforms of rules and oversight of financial gatekeepers, including auditors, should be actively examined.[8] The Gatekeepers Statement indicates that any such reforms should focus on ensuring that the "pillars of transparency . . . and accountability are solidly in place."[9]

The Independence Statement reflects our members' views about the criteria that a domestic or international auditing or accounting standard setter should possess. Our members generally believe that the adoption of those criteria would make it more likely that a standard setter would develop and issue standards that produce high quality audited financial statements that would be useful to institutional investors in making investment decisions and that would benefit the overall efficiency of the global markets. Those criteria, importantly, include a requirement that the standard setter demonstrate a clear recognition that its primary role is to satisfy in a timely manner the "information needs" of the key customer of audited financial reports—investors.[10]

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[5] Letter from Jeff Mahoney at 4 (footnotes omitted).
[6] Council of Institutional Investors, Statement on Financial Gatekeepers 1-2 (Adopted Apr. 13, 2010), http://www.cii.org/UserFiles/file/Statement%20on%20Financial%20Gatekeepers.pdf [hereinafter Gatekeepers Statement].
[7] Council of Institutional Investors, Statement on Independence of Accounting and Auditing Standard Setters 1-2 (Adopted Oct. 7, 2008), http://www.cii.org/UserFiles/file/Statement%20on%20Independence%20of%20Accounting%20and%20Auditing%20Standard%20Setters.pdf [hereinafter Independence Statement].
[8] Gatekeepers Statement, *supra* note 6, at 1-2.
[9] *Id*. at 1.
[10] Independence Statement, *supra* note 7, at 2.

The Council, consistent with the conclusion of many investors, the ACAP, and many other market participants, believes that requiring the signature of the engagement partner in the audit report would be responsive to the information needs of investors *and* would provide for greater transparency and accountability enhancing the real and perceived quality of audited financial statements. As we explained in our September 4, 2009, comment letter in response to the Board's related *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*:[11]

> Armed with valuable information provided by the lead auditor's signature, investors and boards will demand skilled engagement partners. The Council consequently believes that enhanced focus on the performance of the lead auditor will motivate audit firms to strengthen the quality, expertise, and oversight of their engagement partners. By more explicitly tying the lead auditor's professional reputation to audit quality, requiring engagement partners to sign the audit report will further result in better supervision of the audit team and the entire audit process.[12]

While our strong support for requiring the signature of the engagement partner in the audit report has not wavered, we acknowledge that the Release's proposed approach of disclosing the name of the engagement partner "has most of the same potential benefits as a signature requirement."[13] We, therefore, would not object to a final standard requiring disclosure of the engagement partner's name, rather than signature, in the audit report.

Disclosure of Other Firms and Individuals that Took Part in the Audit

We also support, for similar reasons, the Board's proposed disclosure of off-shoring arrangements and other types of arrangements whereby the auditing firm that issues the opinion relies on other firms or individuals to perform audit procedures. As an initial matter, we agree with the Board's conclusion that investors need "greater transparency about who is performing the audit and how much of the audit they have performed."[14] That need was confirmed by the March 2010 survey results of the CFA Institute, finding that *91 percent* of respondents generally support greater transparency about the "identities and specific roles" of other participants in the audit.[15]

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[11] Concept Release on Requiring the Engagement Partner to Sign the Audit Report, PCAOB Release No. 2009-005, PCAOB Rulemaking Docket Matter No. 029 (July 28, 2009), http://pcaobus.org/Rules/Rulemaking/Docket029/2009-07-28_Release_No_2009-005.pdf.

[12] Letter from Jonathan D. Urick, Analyst, Council of Institutional Investors, to J. Gordon Seymour, Secretary and General Counsel, Public Company Accounting Oversight Board 1-2 (Sept. 4, 2009), http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/CII%20Comments%20on%20PCAOB%20Rulemaking%20Docket%20Matter%20No%20%2029%20(3)%20doc%20(final).pdf.

[13] Release, *supra* note 2, at 10.

[14] *Id*. at 21.

[15] CFA Institute, Independent Auditor's Report Survey Results 14 (Mar. 2010), http://www.cfainstitute.org/Survey/independent_auditors_report_survey_results.pdf.

It should not be surprising to anyone that investors need and are demanding more transparency about off-shoring and similar arrangements by audit firms, particularly in the case of the audits of multi-national companies. For those audits, the Board has acknowledged that investors "generally do not know the identities of other participants in the audit" and, in some cases, those participants:

- May not be subject to inspections by the PCAOB or other regulators;
- May have a disciplinary history with the PCAOB or other regulators; or
- May be subject to different, and potentially conflicting, legal and regulatory requirements than the firm issuing the audit opinion.[16]

PCAOB Chairman James Doty has stated that the Release's proposed disclosures "[e]nhanc[ing] transparency into the composition of cross-border audits should help investors gain a better understanding of how an audit was conducted and make more informed decisions about how to use the audit report."[17] We wholeheartedly agree.

The Council again appreciates the opportunity to comment on the Release. We thank you for considering our views. Please feel free to contact me at 202.261.7081 or jeff@cii.org with any questions regarding the content of this letter.

Sincerely,

Jeff Mahoney
General Counsel

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[16] *See* Release, *supra* note 2, at 20 ("[T]he proposed disclosure would enable investors and other users of the audit report to determine whether a disclosed independent public accounting firm is registered with the Board and has been subject to PCAOB inspection, and whether a disclosed independent public accounting firm or another person has had any publicly available disciplinary history with the Board or other regulators."); *see also* Jay D. Hanson, Board Member, PCAOB, Statement on Proposed Amendments to Improve Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits 2 (Oct. 11, 2011), http://pcaobus.org/News/Speech/Pages/10112011_HansonStatement.aspx ("[E]ven where the other firm is a member of the international network of the firm issuing the report, the network affiliate firm may be subject to different, and potentially conflicting, legal and regulatory requirements that investors may want to consider in evaluating the overall audit.").

[17] James R. Doty, Chairman, PCAOB, Statement on Proposed Amendments to Improve Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits 2 (Oct. 11, 2011), http://pcaobus.org/News/Speech/Pages/10112011_DotyStatement.aspx.

Council of Institutional Investors
The Voice of Corporate Governance

Via Email

May 23, 2013

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006-2803

Re: Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2 (PCAOB Rulemaking Docket Matter No. 29)

Dear Madam Secretary:

I am writing on behalf of the Council of Institutional Investors ("CII"). CII is a nonprofit, nonpartisan association of public, corporate, and union employee benefit funds, and other employee benefit plans, foundations and endowments. Our members are long-term shareowners with combined assets that exceed $3 trillion.[1]

The purpose of this letter is to supplement our January 5, 2012 comment letter ("Comment Letter")[2] expressing strong support for the Public Company Accounting Oversight Board ("PCAOB") promptly issuing a final standard in connection with its project on Proposed Amendments to PCAOB Auditing Standards and Form 2 ("Proposal").[3] Since the issuance of the Comment Letter, at least three significant events have occurred that we believe provide further support to requiring the disclosure of the signature or name of the audit engagement partner in the auditor's report.

1. *Revision to CII's Policies*

At the meeting of CII's general membership last month, the members approved revisions to our existing corporate governance policies on "Auditor Independence."[4] Those revisions were the result of an extensive due process, including solicitation and careful consideration of input from a broad range of market participants from both within and outside of our general membership.

[1] For more information about the Council of Institutional Investors ("CII") and its members, please visit CII's website at http://www.cii.org/members.
[2] Letter from Jeff Mahoney, General Counsel, to Office of the Secretary 1 (Jan. 5, 2012), http://pcaobus.org/Rules/Rulemaking/Docket029/022b_CII.pdf.
[3] Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2, PCAOB Release No. 2011-007, PCAOB Rulemaking Docket Matter No. 29 (Oct. 11, 2011), http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf [hereinafter Proposal].
[4] CII Corporate Governance Policies, § 2.13 Auditor Independence (updated 2013), http://www.cii.org/corp_gov_policies#BOD.

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The revisions to the Auditor Independence policy contain a number of factors that our general members believe audit committees should consider when exercising their "authority to hire, compensate, oversee and, if necessary, terminate the company's independent auditor."[5] One of those factors, particularly relevant to the Proposal, is the audit committee's evaluation of the "track record of the lead partners and the extent of their professional commitments . . . . ."[6] In describing that factor, the new policy language explicitly reflects our members' view that one efficient tool for collecting information about the lead audit partner is "through disclosure or signature of the lead partner on the auditor's report." That view appears to confirm the validity of the view described in the Proposal that many believe "providing financial statement users, audit committees, and others with the name of the engagement partner [in the audit report] might provide them the opportunity to evaluate, to a degree, an engagement partner's experience and track record."[7]

2. The London Incident

As you are aware, on April 9, 2013, KPMG LLP ("KPMG") issued a public statement indicating that an unnamed audit partner was separated from the firm for his involvement in providing non-public client information to a third party in exchange for cash.[8] While investors and the general public learned within one day of the KPMG statement that Scott London was the unnamed partner and that Mr. London was the audit partner on Herbalife and Skechers,[9] it was not until *three days later* that investors and the general public learned of the existence of three other audit clients of Mr. London—Deckers Outdoor Corp., RSC Holdings and Pacific Capital.[10]

Unfortunately, questions about Mr. London's involvement with other audit clients remains. In an April 23, 2013 article in the Financial Times, Michael Andrew, the chairman of KPMG, indicated that he was "prevented by confidentiality requirements from revealing *what other companies' audits were led by Mr. London*."[11]

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[5] § 2.13a Audit Committee Responsibilities Regarding Independent Auditors.
[6] *Id.*
[7] Proposal at 6.
[8] Michel Cohn, *KPMG Resigns from Herbalife and Skechers Audits after Senior Partner is Implicated in Insider Trading,* Acct.today, Apr. 9, 2013, at 1-2, http://www.accountingtoday.com/news/KPMG-Resigns-Herbalife-Skechers-Audits-Insider-Trading-66307-1.html.
[9] *Id*.
[10] Michael Cohn, *PCAOB Could Toughen Auditor Rules after KPMG Insider Trading Case*, Acct.Today, Apr.12, 2013, http://www.accountingtoday.com/debits_credits/PCAOB-Auditor-Rules-KPMG-Insider-Trading-Case-66350-1.html [hereinafter Cohn article].
[11] Patti Waldmeir & Kara Scannell, Fin. Times, *KPMG chief dismisses 'one-day wonder' scandal,* Apr. 23, 2013, at 1 (emphasis added), http://www.ft.com/intl/cms/s/0/cdbae386-abfa-11e2-9e7f-00144feabdc0.html#axzz2U8ic3fBb.

The delay and continued uncertainty surrounding which companies' audits were led by Mr. London is of concern to investors and shareowners. Commenting on those concerns, a former enforcement attorney with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority recently stated:

> Even once the name of the auditor partner was disclosed, you had no idea what other audits he may have been leading. And as an investor, it would have been very interesting to know what other audits he was leading because they were likely to have implications as well, so it wouldn't just be Herbalife and Skechers, but maybe others.[12]

Moreover, the London incident occurred during proxy season when over a period of a just few weeks literally millions of American shareowners are voting proxies at thousands of U.S. public companies. One of the more consequential votes that shareowners cast annually at most of those companies, consistent with CII membership approved policies,[13] is a vote on the ratification of the independent, external auditor.[14] Recent empirical evidence indicates that shareowner voting on auditor ratification increases audit quality.[15]

In our view, as soon as news about Mr. London's conduct had been reported publicly, every shareowner in America should have had the ability to immediately access information to determine whether Mr. London was the audit engagement partner at the company they own. That information would certainly have had some relevance for some shareowners in determining how to vote on management's proposal to ratify the choice of outside auditor. We believe that adoption of the Proposal would provide the means for shareowners to more efficiently obtain that information.

3. *Empirical Evidence Supporting the Proposal*

In February 2013 a paper was accepted for publishing by the American Accounting Association providing empirical evidence in support of the Proposal.

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[12] Cohen article at 1.

[13] § 2.13f Shareowner Votes on the Board's Choice of Outside Auditor ("Audit Committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor.").

[14] A review of Institutional Shareholder Services Inc. Voting Data by CII staff reveals that 2,739 companies in the Russell 3,000 had management proposals asking shareowners to vote on whether to ratify the company's choice of independent external auditors in calendar year 2012.

[15] Mai Dao et al., *Shareholder Voting on Auditor Section, Audit Fees, and Audit Quality,* 87 Acct. Review 149 (Jan. 2012), http://aaajournals.org/doi/abs/10.2308/accr-10159 (subscription required) (finding "that in firms with shareholder voting on auditor selection (1) subsequent restatements are less likely and (2) abnormal accruals are lower").

More specifically, the paper investigated the conclusion of the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession ("ACAP") that "the engagement partner's signature on the auditor's report would increase transparency and accountability."[16] Prepared by Joseph V. Carcello, Professor, University of Tennessee and Chan Li, Assistant Professor, University of Pittsburg, the paper examined whether financial reporting outcomes changed in the United Kingdom after their introduction of the partner signature requirement in 2009.[17]

The paper's findings, generally confirming the conclusion of ACAP and one of the bases of CII's support for the Proposal,[18] include the following:

> *Overall, our results indicate that the implementation of a partner signature requirement in the U.K. has offered benefits to investors and other financial statement users*. First, earnings management has declined, whether measured by abnormal accruals or the propensity to meet an earnings threshold. In addition, the incidence of qualified audit opinions has increased. Perhaps because of this decline in earnings management and/or because of a greater willingness by auditors to issue qualified opinions, the informativeness of earnings has increased. Importantly, the results for both control samples – U.S. firms which have not implemented a signature requirement, and firms in other European Countries that adopted the partner signature requirement before the U.K. – suggest that the audit quality improvements experienced in the U.K. after the partner signature requirement are unlikely to be due to other changes in the audit or business environment not included in our model.
>
> . . . .
>
> . . . . *Our results are consistent with the argument that requiring an individual audit partner to sign a report improves audit quality by increasing the partner's accountability and transparency of audit reporting* . . . .[19]

[16] U.S. Department of the Treasury, *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* VII:120 (Oct. 6, 2008), http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf.
[17] Joseph V. Carcello et al., *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom* (Jan. 16, 2013), http://www.docstoc.com/docs/149993970/Costs-and-Benefits-of-Requiring-an-Engagement-Partner-Signature (registration required) (Acct. Rev. forthcoming).
[18] Letter from Jeff Mahoney at 2.
[19] Joseph V. Carcello at 7 (emphasis added).

For all of the above reasons and those cited in the Comment Letter, CII continues to strongly support the prompt issuance of a final standard implementing the Proposal. We thank you for considering the views of long-term investors. Please feel free to contact me at 202.261.7081 or jeff@cii.org with any questions regarding the content of this letter.

Sincerely,

Jeff Mahoney
General Counsel

Deloitte.

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January 9, 2012

Office of the Secretary
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1666 K Street, N.W.
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Re: *Proposed Standard: Improving the Transparency of Audits*
PCAOB Rulemaking Docket Matter No. 029

Deloitte & Touche LLP ("D&T") is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the "PCAOB" or the "Board") on its *Proposed Standard: Improving the Transparency of Audits*, PCAOB Release No. 2011-007; PCAOB Rulemaking Docket Matter No. 029 (October 11, 2011).

EXECUTIVE SUMMARY

We support transparency regarding the audit process and related quality controls in the interest of promoting the protection of investors and the effective functioning of the capital markets. D&T was one of the first accounting firms in the United States to provide a transparency report to the public describing its governance processes, ethical principles, and quality control procedures. [1] In responding to the Board's proposed standard from this perspective, we offer the following observations:

1. A variety of legal and regulatory provisions now in place are designed to ensure audit engagement partner accountability and the provision of information investors need to make decisions. Further, the Board currently has an agenda project to consider changes in the auditor's report.

2. Should the Board decide that additional measures are called for, options are available to reinforce the functioning of the current system while avoiding unintended adverse effects:

   - Disclose the engagement partner's name in Form 2 reports rather than in both Form 2 reports and audit reports.

   - Include additional language in the audit report that describes the overall level of participation of other firms in the audit, including network member firms, rather than requiring individual disclosure for other participants.

   - If disclosure of other firms' participation is required, adopt a 20 percent threshold rather than a 3 percent threshold, which is generally consistent with the PCAOB's approach in defining whether a firm is playing a "substantial role."

- Resolve the risk of increased liability exposure before imposing new disclosure requirements, for example by coordinating with the Securities and Exchange Commission (SEC) to issue rules designed to counter interpretations that would promote lawsuits and regulatory actions.

CURRENT MECHANISMS PROMOTING TRANSPARENCY

The current environment within which audit firms function contains a variety of mechanisms designed to ensure that audit partners are held appropriately accountable for their work and that investors receive the information they need to make informed decisions:

- PCAOB standards make it clear that the engagement partner is responsible for the audit engagement and the conduct of the audit in accordance with applicable standards.[2]
- Engagement partners are subject to multiple layers of internal quality controls, such as engagement quality reviews, internal inspections, and consultation requirements.
- They are also subject to external oversight, through audit committees, federal and state regulators, the PCAOB, and the threat of civil liability.[3]
- Firms themselves are highly motivated to assure accountability through these internal and external mechanisms, particularly with regard to the quality of engagement partner performance.[4]
- Investors have access to substantial information about public companies through the audit report, management's discussion and analysis, earnings reports, and analyst reports.
- The Board is considering possible means for expanding the usefulness of the auditor's report.[5]

DISCLOSURE OF LEAD ENGAGEMENT PARTNER'S NAME

The standard the Board has proposed would require that the engagement partner's name be disclosed in the audit report and in Form 2 reports that registered public accounting firms file annually with the PCAOB. The features of the existing environment we have cited above address the objectives of the proposed standard concerning auditor accountability and investor information.

Should the Board decide that additional action is required, the most appropriate step would be using Form 2 as the means for disclosure, as opposed to also requiring disclosure in the audit report, for the following reasons:

- As the Board notes in its release,[6] Form 2 can be a more convenient and accessible form of reporting.
- There is less risk of fostering a misperception about how an audit is conducted; although the engagement partner is responsible overall, the performance of the audit requires the work of many professionals and involves the quality control systems of the firm.

- It avoids the potential issue regarding the engagement partner providing a consent, as discussed below.

We are not aware of evidence showing that disclosing an engagement partner's name in the audit report would increase the partner's sense of accountability or that it would cause the engagement partner to exercise greater care in performing the audit.

With respect to providing useful information to investors, knowing the engagement partner's name would be of limited use in making investment decisions. In terms of evaluating the quality of a particular partner's work, the number of issuer audits for which an individual may be the engagement partner, and for which his or her name is disclosed, would represent only a portion of the person's relevant audit engagement experience, other professional experience, education, and training.

For these reasons we suggest that the Board's current agenda project on the auditor's report be the immediate focus for considering potential steps to change the content of that document. Should the Board determine that it should take action at this time on disclosure of the engagement partner's name the more appropriate means would be Form 2.

DISCLOSURE OF OTHER INDEPENDENT ACCOUNTING FIRMS AND PERSONS

The proposal sets forth a 3 percent threshold for the disclosure of other independent firms and participants in the audit based on total hours in the audit for the most recent period, assuming the principal auditor is not dividing responsibility with the participant. As discussed above, the current system provides substantial information for investors, and we suggest that changes in the content of the auditor's report be considered as part of the Board's agenda project on that subject.

Additional explanation on audit participation

Given that the Board is separately considering possible modifications in the auditor's report, there is the opportunity to prescribe the addition of report language that describes the overall level of other firms' participation, including network member firms. An example of how this could be achieved is provided in the letter to the PCAOB from the Center for Audit Quality, submitted in connection with the PCAOB's project to consider additional changes to the auditor's report.[7]

This approach would be of greater value to investors and other users of the report, less likely to cause confusion regarding responsibility for the audit, more readily understandable, and consistent with the Board's objective and other requirements of the Board when the auditor divides responsibility.

Disclosure of other participants

Should the Board decide to require some form of disclosure of other participants in the audit, a 20 percent threshold would be more meaningful to investors and other readers of the financial statements. Firms with participation at that level are those that would be playing a more significant role in the audit. They are generally already defined as playing a "substantial role" by the PCAOB.[8]

At this level of participation it is more likely that the information would be of interest and significance to investors and other readers of the audit report. In addition, the process to calculate the extent of their participation would be significantly less burdensome and distracting from the completion of the audit.

Our concern is that, especially if the 3 percent threshold is applied, disclosing other firms and persons participating in the audit creates the potential for confusing audit report readers. For example, the disclosure of the names of the other auditors may be misinterpreted as indicating the principal auditor has divided responsibility with these auditors or that a joint audit was conducted. With respect to the 3 percent threshold, the following considerations are important:

- The threshold is very low in relation to the significance of the audit work of the participants relative to the overall audit, and the information is likely of limited utility to investors.

- The proposed approach requires a calculation to arrive at a precise participation rate at the report issuance date for each audit participant. Although the PCAOB Staff and the release have indicated that an estimate may be used, the language in the proposed standard does not state this.[9]

- Further, some audit hours will be incurred after the report issuance date. For example, PCAOB Auditing Standard No. 3 *Audit Documentation* allows 45 days from the report issuance date for the audit documentation to be assembled. Thus, some estimation would necessarily be required.

- The lower the threshold, the more time will be taken away from completing the audit to perform the calculations, and the more necessary it will be to use estimates.

Disclosure of certain participating firms having a relationship with the signing auditor

Registered public accounting firms are structured in various ways; some have affiliated firms that are separate legal entities located in the same jurisdiction as that in which the registered firm is located. Their participation in an audit in which the registered firm is the signing auditor is subject to supervision by the registered firm, which takes responsibility for the work of participating firms. In this connection, it would be helpful if the Board were to clarify whether the following interpretations of the proposed standard are correct:

- The legal structure of the registered firm and its affiliates in these circumstances would not affect the application of the disclosure requirements of the proposed standard, and disclosure of the participation in the audit of the affiliates would not be required.

- The participation of a subsidiary controlled by the registered firm located in a different jurisdiction, supervised on the audit by the registered firm, also would not be required to be disclosed.

LEGAL LIABILITY

The Board has made clear its intent that the proposed standard should not increase liability.[10] Further, recent Supreme Court decisions have clarified or confirmed limitations on liability under Section 10(b). One involves what must be shown to prove that an individual or firm made an untrue statement of a material fact (the *Janus* decision).[11] The other addresses what some courts refer to as “scheme liability” or “associational liability” (the *Stoneridge* decision).[12] Proper application of *Janus* and *Stoneridge* to the proposed disclosure requirements should preclude an increase in the liability of the engagement partner or other participants in the audit under Section 10(b) as a result of the proposed disclosures.

Nevertheless, although unintended, the proposed standard would create the potential of an increase in liability or of being made a part of legal and regulatory proceedings for engagement partners and others who would be named as participants in audits. This risk should be resolved before the Board moves forward with the proposed standard.

For example, the Board and the SEC might coordinate to make clear by rule that the engagement partner should not be considered the maker of the statements in the audit report for purposes of liability under Section 10(b) or Rule 10b-5 as a result of his or her name being disclosed under the proposed standard,[13] that any disclosure requirement would not increase liability under Section 11, and that a consent pursuant to Section 7 is not required.[14]

More specifically, the following are the grounds for concern about unintended consequences:

- Plaintiffs can be expected to assert claims under Section 10(b) against named partners and firms notwithstanding the two Supreme Court decisions, and some courts could read them in such a way that merely naming an engagement partner in an audit report will be sufficient to attribute the statements made in the audit report to that engagement partner or provide a basis for "scheme" or "associational" liability.

- The Securities Act of 1933 requires that issuers file the consent of any person (including an accountant) named as having prepared or certified any part of a registration statement (Section 7). It allows claims against such parties (Section 11).[15] Liability under Section 11 does not depend on whether the accountant signed the report. Thus there would be a significant risk if it is determined that engagement partners and other participating firms must file a consent pursuant to Section 7 based on the disclosure of their names.

- Several states either adopted or patterned their securities laws after the Uniform Securities Act, which includes a section modeled after Rule 10b-5(b). Some state courts could, for example, conclude that audit partners and participating firms who are named in an audit report make statements contained in that report and, thus, are liable under state securities laws, even though such a conclusion would be in tension with the *Janus* interpretation of Section 10(b).

- Some states recognize causes of action not merely by buyers and sellers of securities, but also by holders of securities who claim to have relied on false statements. Plaintiffs also could seek to assert claims against named engagement partners and firms under state common law.

- Regardless of how courts rule, simply providing more names to plaintiffs and their counsel would increase the number of claims asserted against engagement partners and other participants who are named. Firms would incur additional costs and experience disruption from such litigation, and from regulatory scrutiny and action.

The potential for unintended consequences underscores the need for the Board to conduct a thorough analysis of the proposal's costs and benefits, and resolve these issues before its adoption.

*   *   *

D&T appreciates this opportunity to provide our perspectives on this important topic. Our comments are intended to assist the PCAOB in analyzing the relevant issues and potential impacts. We encourage the PCAOB to engage in active and transparent dialogue with commenters as the proposed standard is evaluated and changes are considered. If you have any questions or would like to discuss these issues further, please contact Robert Kueppers at 212-492-4241 or William Platt at (203) 761-3755.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: James R. Doty, PCAOB Chairman
Lewis H. Ferguson, PCAOB Member
Daniel L. Goelzer, PCAOB Member
Jay D. Hanson, PCAOB Member
Steven B. Harris, PCAOB Member
Martin Baumann, PCAOB Chief Auditor and Director of Professional Standards

Mary L. Schapiro, SEC Chairman
Luis A. Aguilar, SEC Commissioner
Daniel M. Gallagher, SEC Commissioner
Troy A. Paredes, SEC Commissioner
Elisse B. Walter, SEC Commissioner
James L. Kroeker, SEC Chief Accountant
Brian T. Croteau, SEC Deputy Chief Accountant

[1] Advancing Quality Through Transparency, Deloitte LLP 2011. http://www.deloitte.com/view/en_US/us/About/Investor-Confidence/25f9421ee24ce210VgnVCM1000001a56f00aRCRD.htm

[2] See, for instance, PCAOB Auditing Standard No. 9, *Audit Planning*, paragraph 3: "The engagement partner is responsible for the engagement and its performance."

[3] See further discussion of the internal and external oversight processes in the Deloitte & Touche September 11, 2009 letter to the PCAOB.

[4] There are also significant concerns regarding safety and security issues resulting from disclosing individual names, as discussed in our September 11, 2009 letter to the Board. We continue to believe the proposed standard would present significant security concerns for individual partners and their families, and could trigger a reluctance to accept particular audit engagements, e.g., high risk engagements, and further challenge the profession's ability to attract and retain talented professionals. These concerns will also likely involve additional costs in relation to performing certain audits, e.g., arising from the assessment of risks, and putting measures in place to respond to them. We have experienced direct threats to our people as a result of the nature of a client's business operations and of audit findings during the performance of our work.

[5] *See Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* available at http://pcaobus.org/Rules/Rulemaking/Pages/Docket034.aspx

[6] See PCAOB release, page 17.

[7] Refer to page 1 of Example A in the Center for Audit Quality's letter available at http://www.thecaq.org/newsroom/pdfs/CAQ_June28Letter_PCAOBRulemakingDocketMatterNo.34.pdf.

[8] As defined in PCAOB Rule 1001, the phrase "play a substantial role in the preparation or furnishing of an audit report" means: (1) to perform material services, i.e., services for which the engagement hours or fees constitute 20 percent or more of the total engagement hours or fees, that an accounting firm uses or relies on in issuing all or part of its audit report with respect to any issuer, or (2) to perform the majority of the audit procedures with respect to a subsidiary or component of any issuer the assets or revenues of which constitute 20 percent or more of the consolidated assets or revenues of such issuer necessary for the principal accountant to issue an audit report on the issuer.

[9] During the open Board meeting on October 11, 2011, it was indicated that firms would be able to use an estimate to arrive at the percentages. Although the release states the auditor may estimate the total hour, it appears limited to "when the actual number of hours have not been reported" by the other participating firms. Significantly, the language in the proposed standard itself does not state that estimates are permitted. *See* PCAOB release, at C-2 "… (3) the percentage of hours attributable to audits or audit procedures performed by the firm(s) or person(s) in relation to the total hours in the most recent period's audit…."

[10] S*ee* PCAOB release, pp. 14-16.

[11] *See Janus Capital Group, Inc. v. First Derivative Traders*, 564 U.S. ---, 131 S.Ct. 2296, 2302 (2011).

[12] *See Stoneridge Investment Partners, LLC v. Scientific-Atlanta, Inc.*, 552 U.S. 148 (2008).

[13] Additionally, there should be consideration of whether safe harbor protection can be afforded to provide that engagement partners, as a result of being named under the proposed standard, must not be considered to have made the statements within the audit report for the purpose of imposing liability under Section 17(a) of the Securities Act of 1933. Such a clear and definitive rule is of heightened importance in light of the unsettled nature of the impact of *Janus* on Section 17 claims. *Compare SEC v. Daifotis*, No. C 11-00137 WHA, 2011 WL 3295139 (N.D. Cal. Aug. 1, 2011) (holding that the reasoning of *Janus* cannot be extended to Section 17(a)(2) because that section does not contain the word "make") *with SEC v. Kelly*, No. 08-CV-4612, 2011 WL 4431161 (S.D.N.Y. Sept. 22, 2011) (extending the reasoning of *Janus* to a claim under Section

17(a)(2)). Recently, an SEC administrative law judge has agreed with the district court in *Kelly*. *See Primary liability: In the Matter of John P. Flannery*, Adm. Proc. File No. 3-14081 (Initial Decision Dated Oct. 28, 2011).

[14] A requirement that engagement partners provide consents in certain filings based on the disclosure of their names in audit reports could also pose several practical difficulties, including: (1) what to do after a partner retires or otherwise leaves the firm; (2) what to do once a partner rotates off the audit engagement, i.e., would that partner have to perform additional procedures prior to agreeing to consent; and (3) what to do if the issuer switches audit firms. Disclosure of other participants in the auditor's report presents comparable issues – e.g., a requirement that registrants include consents from other participants in connection with certain filings based on disclosure of their names in audit reports would significantly complicate the issuance of a report incorporated by reference into a registration statement and may require several firms to perform subsequent event procedures in order to provide such consents.

[15] *See also* 17 C.F.R. 230.436(b) ("Rule 436(b)"). Rule 436(b) provides that, "[i]f it is stated that any information contained in the registration statement has been reviewed or passed upon by any persons and that such information is set forth in the registration statement upon the authority of or in reliance upon such persons as experts, the written consents of such persons shall be filed as exhibits to the registration statement."

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January 9, 2012

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Re: PCAOB Rulemaking docket matter No. 29: Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2

Dear Board Members:

Eli Lilly and Company ("Lilly") appreciates the opportunity to comment to the Public Company Accounting Oversight Board ("PCAOB") on the PCAOB Release No. 2011-007 on Improving the Transparency of Audits. Lilly is a large, multinational pharmaceutical company, with presence in over 50 country jurisdictions, and creates and delivers innovative medicines that enable people to live longer, healthier, and more active lives.

Lilly commends the PCAOB for working to provide more transparency within the existing audit report framework by providing investors with information regarding certain key participants in the audit process. We support the amendments that the PCAOB is proposing that would require (1) the audit report to disclose the name of the engagement partner responsible for the most recent period's audit; (2) registered firms to disclose in their PCAOB annual report on Form 2 the name of the engagement partner for each audit report already required to be reported on the form; and (3) disclosure in the audit report about the other persons and independent public accounting firms that took part in the most recent period's audit. However, we disagree with the 3% threshold that the PCAOB has proposed to use to determine the persons and/or accounting firms that would be required to be disclosed under the 3rd proposed amendment. In our response, we give a brief summary of our opinions in response to each of the PCAOB's three proposed amendments.

Amendment 1: The Proposed Audit Report Disclosure

We are supportive of the PCAOB's proposal which would require the audit report to disclose the name of the engagement partner responsible for the most recent period's audit while retaining the signature of the firm issuing the report as the only signature within the audit report. While we do not feel that disclosure of the engagement partner's name in the audit report would increase the engagement partner's sense of accountability because we believe in most circumstances a partner's professionalism, reputation and responsibility to financial statement users is a stronger driver than attaching their name to the audit report, we do not believe that this rule would have negative consequences. Therefore, we are supportive of the proposal if the PCAOB and financial statement users believe that the disclosure would significantly enhance transparency.

Additionally, we believe that the proposed approach reflects the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit.

Amendment 2: The Proposed Amendment to Form 2

We are supportive of the PCAOB's proposal to add a requirement under Item 4.1 of Form 2 to require firms to also disclose the name of the engagement partner. As noted above, we do not believe that adding the name of the engagement partner to the Form 2 disclosure is necessary to drive accountability of the engagement partners but do agree that it may enhance transparency with financial statement users. Also, we also do not oppose the requirement of the name of the engagement partner regardless of whether or not Amendment 1 is adopted for investor transparency purposes.

Amendment 3: Disclosure of Other Participants in the Audit and Referred-to Accounting Firms

We are also supportive of this proposed amendment which would require the auditor to disclose in an explanatory paragraph to the audit report: (1) Names of the other participants in the audit; (2) The location of other participants in the audit; and (3) The percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit in relation to the total hours in the most recent period's audit (excluding Engagement Quality Review and Appendix K review). We believe that this disclosure could provide useful information to investors and other users of financial statements by providing greater transparency which would allow users the ability to evaluate the other participants in the audit.

While we are supportive of requiring disclosure of other participants in the audit, we are strongly opposed to the 3% threshold that the board has proposed as the threshold for disclosing other participants in the audit. The proposal that the PCAOB has outlined would require participants whose individual extent of participation is 3% or more of total hours to be disclosed individually along with their percentage of total hours in the audit. Those participants whose extent of participation is less than 3% of total hours in the audit would need to be disclosed either individually with their respective percentage of total hours or as a group titled "other participants" with the percentage of total hours attributable to the audit procedures performed by the group. We strongly suggest that the PCAOB raise the threshold for participants to be listed individually or in the aggregate to10% as we believe this is a more appropriate level that better aligns with the potential risks and materiality levels and would provide more meaningful information to financial statement users. We believe that a 10% threshold is more consistent with risks within an engagement and thus could provide more meaningful data to a financial statement user when other auditors are involved, while a 3% threshold is so low that the information could potentially be confusing or not meaningful to the user.

We do not believe that aggregating participants that fall below the designated threshold is meaningful.

Conclusion

Again, Lilly supports the PCAOB's efforts to provide more transparency within the existing audit report framework by providing investors with information regarding certain key participants in the audit process. We feel that the three proposed amendments that the PCAOB has outlined could enhance transparency, and we are therefore supportive of the amendments. However, we are concerned that the 3% threshold that the PCAOB has proposed to use to determine which persons and/or accounting firms to disclose under Amendment 3 is too low and could lead to information being provided to financial statement users that is cumbersome to evaluate and not meaningful or significant to the audit. We again urge the PCAOB to carefully consider and evaluate raising the disclosure threshold to 10% which we believe is more appropriate level at which meaningful and useful information could be provided to financial statement users.

We appreciate the opportunity to express our views and concerns regarding the concept release. If you have any questions regarding our response, or would like to discuss our comments further, please call me at (317) 276-2024.

Sincerely,

ELI LILLY AND COMPANY

/s/Arnold C. Hanish

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9 January 2012

Mr. J. Gordon Seymour
Secretary
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PCAOB Rulemaking Docket Matter No. 29
Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2

Dear Mr. Seymour:

Ernst & Young LLP (EY) is pleased to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) above referenced proposal (the Proposed Standard) aimed at improving the transparency of audits.

I. Summary of our positions on the Proposed Standard

We agree with the PCAOB's goal of providing greater transparency about the auditor's responsibilities. Indeed, EY was significantly involved in developing a set of recommendations relating to possible changes to the audit report that was submitted to the PCAOB by the Center for Audit Quality on 9 June 2011. These recommendations included a proposal that the audit report be revised to "describe the accounting firm network structure, the responsibility of the member firm signing the audit report, and the participation of other member firms in the audits." We are pleased that the Proposed Standard incorporates this concept, which would provide meaningful information to investors and others who rely on audited financial statements. However, as discussed below, we suggest some modifications to the Proposed Standard to improve the usefulness of the disclosure and permit the information to be compiled in a way that is not disruptive to the audit process.

We also appreciate that the PCAOB has not gone forward with a proposal, described in the earlier Concept Release, that the partner sign the audit report. Nonetheless, we cannot support the proposal that the engagement partner's name be otherwise identified in the audit report or in Form 2. The purpose of such disclosures, according to the PCAOB's release, is two-fold: to enhance audit quality and to provide useful information to investors. As for the first point, we believe that such a disclosure would not alter a partner's existing strong sense of accountability to the investing public and would send the wrong signal to investors and the market about the nature of an audit and the role of the firm in supporting its execution. As for the goal of providing useful information, we do not believe that a partner's name would add anything useful to the total mix of information relied upon by investors and will likely cause some persons to make incorrect inferences about audit partners and audits. Moreover, we have substantial concerns that naming the partner in the audit report who is "responsible" for the audit would result in more litigation being brought directly against the individual partner (in addition to the firm); even if such claims are ultimately unsuccessful they would have a devastating personal and professional impact. Accordingly, we urge the PCAOB not to adopt the proposal to disclose the engagement partner's name in either the audit report or in Form 2.

Below we provide additional details of our views on the two concepts included in the Proposed Standard.

II. We believe disclosing other participants in the audit will provide investors with meaningful information, and we support the PCAOB's concept in this regard

We support disclosing information in the audit report about the participation of other independent registered public accounting firms in audits. We believe this would provide meaningful and useful information to investors. We do, however, urge the Board to make two modifications to the Proposed Standard.

First, we recommend that the Proposed Standard be expanded to adequately acknowledge the signing firm's oversight, supervision and review responsibilities over those other participants in the audit. We believe investors would benefit from gaining a general understanding of the relationship between the signing firm and other participants in the audit and the signing firm's professional responsibilities for the work performed by the other participants. Some firms are part of a loose network of legal entities, while other firms (such as EY) are members of a global organization that requires all members to follow a consistent audit methodology and adhere to a similar system of quality control. In other circumstances, such as in situations where a non-network firm's work is relied upon by the signing firm, the participating firm is outside of the signing firm's organizational structure and does not follow a similar methodology. We believe investors should be provided information so they can understand the relationship and commonalities, or lack thereof, between the other participants and the signing firm.

Second, we encourage the PCAOB to reconsider the proposed use of an exact audit hour percentage for the disclosure of participating firms' involvement in the audit, and recommend that the Board consider requiring firms to estimate and disclose other participants' efforts by range of percentage, which we believe will be easier to prepare while providing meaningful information to investors.

We urge this change because, while we believe it is important for financial statement users to have a basis to understand the level of involvement by other firms, there are some practical difficulties to determining a precise percentage of other participants' involvement in an audit, and to do so timely. Developing a process to gather the relevant data and determine the precise percentages of other participant involvement through the date of the audit report would be challenging, and may take attention away from other more important matters during the busiest phase of the audit. An example of this is that in many countries, a local audit team will often execute audit procedures for a subsidiary company to permit the signing firm to conclude on the parent company's consolidated financial statements as well as a statutory audit of the subsidiary's financial statements simultaneously. In these cases, the same audit work will be used to support both audit opinions but, for example, may be performed with a lower planning materiality than necessary for the consolidated audit in order to meet the needs of the statutory audit. As a result, local teams are often unable to provide the signing firm with accurate information on total hours incurred related only to the audit of the consolidated financial statements. Therefore, an estimation process using various assumptions would be necessary for the signing firm to disclose the exact percentage as required under the Proposed Standard. Because of the inherent uncertainty associated with this, we believe the PCAOB should modify the proposed information to be included in the audit report, as well as recognize and allow firms to develop a reasonable process to estimate time incurred by the various participants in the audit. A firm's estimation process would likely include, at a minimum, a process to estimate (i) hours needed to complete the audit (including post report issuance work paper archiving and other internal procedures) (ii) the effect of statutory audit procedures as described above and (iii) other matters affecting the disclosures. We are concerned that a lack of acknowledgement of the necessity of an estimation process, combined with a precise percentage threshold for disclosure, would result in significant efforts to obtain a level of precision (and communicating that such precision, in fact, exists) without translating into significantly more useful information to investors.

We believe disclosing individual firm participants in the audit by their approximate level of involvement within a range would provide more useful information to investors while at the same time facilitate a more efficient process to gather information for such a disclosure. When considering the ranges to be used for describing relative auditor involvement, we believe it is important to consider that if the ranges are defined too narrowly (e.g., in 3% or 5% increments), many audit teams may run into challenges given the estimation uncertainty associated with the effort as previously described. By assigning the percentage effort of others involved in the audit to broader ranges, engagement teams will be able to provide the necessary transparency to investors (regarding how significantly other participants were involved in the audit), while allowing the auditor to make reasonable estimates at the time the audit report is filed, Additionally, presenting an estimated aggregate percentage of other participants' involvement in the audit will provide the users of the financial statements with visibility into the magnitude of the total work performed by firms other than the signing firm.

Accordingly, we propose an alternative to modify the audit report as follows:

I. Explain the responsibility of the signing firm, the responsibility of the other firm participants, and acknowledge the signing firm's responsibility for supervising and reviewing the work of the other firm participants, which may include a combination of procedures performed by the engagement team and reliance on a consistent global audit methodology and system of quality control.

II. Disclose the approximate aggregate involvement of other firm participants based on an estimate of audit hours incurred.

III. Include, as an appendix to the audit report, a listing of individual firm participants in the audit (segregated by their participation within or outside a firm's global network) organized by their approximate level of involvement within a specified range. We believe the ranges of 10% to 20% of estimated total audit hours, 21% to 50% of estimated total audit hours, 51% to 80% of estimated total audit hours and greater than 80% of estimated total audit hours would provide investors with useful information about the relative effort of firms other than the firm signing the audit opinion. Specific percentages attributable to each individual participant would not be listed and individual firm participants with involvement of less than 10% of estimated total audit hours would not be separately identified because we do not believe the disclosure of individual auditor involvement below this level would provide a benefit to investors.

IV. Identify individual firm participants listed in the appendix to the audit report that are located in jurisdictions in which the PCAOB, as of the date of the audit report, is unable to perform inspections.

We present in an attachment to this letter an example of the recommended disclosure to be included in the audit report (or as an appendix to the audit report), that incorporates the concepts discussed above.

III. We do not support the proposal regarding disclosure of the names of engagement partners

On its face, the proposal to publicly identify audit engagement partners by name might appear to be relatively innocuous. However, we believe it is necessary to consider how such information might be utilized, whether by the trial bar in litigation or by others who would associate the name with other publicly available information. We conclude the long-term implications of the proposal do not serve the public interest and urge the PCAOB to reconsider the proposal.

a. Identifying the engagement partner by name, either in the audit report or in Form 2, would not provide meaningful or useful information to investors

There are a number of reasons why disclosure of the individual partner's name in either the audit report or in Form 2 would not provide information that is useful to investors and, in fact, could lead to incorrect assumptions or conclusions about the quality of the audit and the skills of the individual auditor.

The partner's name, by itself, is not useful information: The Proposed Standard states that disclosure of the engagement partner's name "could provide investors with useful information." While we support and previously have proposed changes we believe will improve the usefulness of the audit report to investors, those changes are centered around increasing the discussion of certain elements of the audit and highlighting, through an emphasis of matter paragraph approach, those issues in the financial statements that were most important to the auditor. We do not believe that the disclosure of an engagement partner's name would add anything to the total mix of information that is used by an investor in making an investment decision.

Inappropriate emphasis will be placed on the partner, as opposed to the firm: Attaching the partner's name to the report would place a disproportionate emphasis on the role of the partner. It is certainly true, as the Proposed Standard notes, that the engagement partner is ultimately responsible for the performance of the audit. But, as was emphasized in many of the responses to the 2009 concept release, an audit opinion is issued by the firm, not an individual partner. While the engagement partner has a significant role in the audit, there are many others involved in the engagement, such as the engagement quality reviewer, technical resources and other specialists, and many non-partner level auditors. Additionally, there are aspects of the audit that are managed at a firm-level, such as the audit methodology employed, training, consultation policies, etc. We are concerned that the Proposed Standard, if adopted, would create confusion in an area where we don't believe any currently exists.

Inappropriate use of this information could be harmful to audit partners: With regard to the proposed Form 2 disclosure, the PCAOB states that the purpose is to provide investors with a "convenient mechanism to retrieve information about a firm's engagement partners for all of its audits." Moreover, at the 11 October 2011 open meeting to consider this Release, the PCAOB staff indicated that, should this proposal be adopted, the PCAOB would likely enhance its website function to ensure that such information would be easily searchable. It is difficult to understand how this proposed disclosure would be used in a responsible manner (aimed at promoting audit quality) rather than for purposes that could be harmful to individual partners both professionally and personally.

For instance, it is likely that databases will be created to track the names of engagement partners and associate them with publicly available information regarding companies where they currently or previously have served as the engagement partner. Such information could include the identification of material weaknesses in internal controls over financial reporting, the issuance of audit reports with going concern emphasis paragraphs, corporate bankruptcies, restatements of financial results, disclosure of corporate financial improprieties or corporate failures. While this information may sound useful, it would generally be misleading to link the audit report and the individual audit partner to such events. The existence of such events could occur in the context of, or in some cases even result from, an auditor performing his or her job at the highest skill level. Accordingly, the attempted linkage of an individual audit partner's name to certain company events or occurrences would likely yield incorrect inferences for both the partner and the companies they audit and thus potentially provide misleading information to investors.

Use of this information might result in inappropriate inferences about partner changes: The Proposed Standard states, "Once in effect for at least five years, the additional transparency could also allow investors to consider whether the engagement partner was replaced sooner than is required under the partner rotation requirements in the Act and SEC rules." The Proposed Standard then asks, "Could that additional transparency, in turn, promote auditor independence by discouraging audit clients from inappropriately pressuring the firm to remove an engagement partner?" There are numerous reasons why a partner may leave an engagement before the mandatory rotation date, such as through reassessments by the firm of partners' workloads, retirement timing/planning, different responsibilities for the partner within the firm or for health or personal reasons. In view of the question posed in the Proposed Standard, we are concerned that investors might start to infer that early rotation is due to an audit firm's inability to stand up to a client on an accounting or auditing matter or otherwise conclude that some type of audit problem exists.

The proposal overlooks the role of the audit committee in approving the audit partner: The assumption that investors need to have the name of the audit partner overlooks the key role of the audit committee in overseeing the conduct of the audit, a role given to the audit committee under Section 301 of the Sarbanes-Oxley Act. The audit committee, acting on behalf of shareholders, is given extensive information about the engagement partner's qualifications and experiences and will typically interview a number of partners before approving the selection of the audit partner. Based on that information, the audit committee determines whether the partner is capable of leading a high quality audit team. Financial statement users are not in a position to perform a similar evaluation by only using the partner name.

b. Identifying the engagement partner by name, either in the audit report or in Form 2, would not improve audit quality

The Proposed Standard offers another rationale for partner identification: that audit quality will be improved by the enhanced accountability felt by an engagement partner upon disclosure of his or her name and that the greater transparency will incentivize audit firms to assign more experienced and capable partners to engagements. Again, we respectfully disagree.

Making public the audit partner's name would not increase the partner's sense of responsibility. That sense of accountability and professional responsibility exists now. Partners today feel a strong sense of accountability when they authorize the use of a firm's signature on an audit report. This accountability is based on the partner's professional responsibilities to the audit committee, investors and regulators. The firm's system of quality control, which promotes audit quality and provides reasonable assurance that the firm and its personnel at all levels comply with the applicable professional standards, is a key contributor to a partner's sense of personal accountability.

Partners responsible for audits of public companies today are subject to PCAOB inspections, firm internal quality reviews, SEC and PCAOB enforcement proceedings, peer reviews, state accountancy board disciplinary proceedings, as well as the threat of litigation in which the partner's performance will be challenged. We know of nothing comparable in any other profession — lawyers, doctors, architects, and others are of course subject to regulatory scrutiny but we believe that the level and diversity of review of an auditor's performance is unique.

In the Proposed Standard, the Board suggests that the transparency provided to investors about the engagement partner could "further incentivize firms to assign more experienced and capable engagement partners to engagements." We agree that investors are best served when the most challenging audits are matched with engagement partners possessing the appropriate knowledge, experience and temperament for the circumstances. However, audit firms currently understand these factors and are in the best position to make these assignments, as approved by the audit committees.

c. Disclosure of the audit partner's name in the audit report would increase the likelihood that partners would be named in private litigation and increase liability exposure to partners

We are concerned that the proposal would expose audit partners to substantial liability. This is an issue which is specifically raised in the Proposed Standard and was the subject of much discussion at the PCAOB's public meeting on 11 October 2011.

Identifying partners in the audit opinion would likely lead to more litigation directly against audit partners: Partners today are generally not named individually as defendants in lawsuits. Typically, plaintiffs' lawyers name the accounting firm itself, but not individuals involved in the audit. We have reviewed our caseload for recent years and found only a handful of cases in which a plaintiff named an individual partner as a defendant.

Although we do not have access to the plaintiff bar's decision-making calculus, we believe there are reasons for this practice. At the time a complaint is filed, a plaintiff frequently does not know the name of the engagement partner; that information is learned through discovery. A plaintiff could, of course, seek to amend his/her complaint after learning the partner's name, but plaintiffs' lawyers with whom we have spoken have expressed a view that individual partners are not generally named because an individual partner is not a "deep pocket" for recovery of damages. The firm itself, at least in the case of the large firms, will satisfy a judgment. In addition, in federal securities litigation, the partner would likely seek dismissal of the lawsuit based on the *Central Bank* "primary liability" line of cases (which we discuss further below) because the firm is generally viewed as the "maker of the statement" as opposed to the individual partner. Therefore, from a plaintiff's perspective, naming the individual partner may be viewed as a pointless exercise.

However, we believe that linking the partner's name specifically to the audit report, as the PCAOB's proposal would do, would change this analysis substantially. If the Proposed Standard were adopted, the report would state, "[t]he engagement partner responsible for the audit resulting in this report was [name]." Plaintiffs and their counsel will find it easy, and likely desirable, to name as a defendant the person identified as having been "responsible" for an allegedly misleading audit opinion. The plaintiff may also conclude that naming the individual partner would provide additional leverage for purposes of settlement, would make it easier to obtain discovery from the partner, and may provide other tactical advantages.[1]

We have, in fact, had experience with plaintiffs seeking tactical advantages by naming individuals as defendants. For example, in a recent case, plaintiff's counsel named a former EY audit manager as a defendant in a lawsuit, along with EY. The plaintiff's lawyer then wrote a letter to counsel, who (as is typical) was representing EY and the former manager, and told him that the plaintiff would be willing to drop the individual from the lawsuit if she would agree to be interviewed by plaintiff's counsel, without EY counsel present, to answer detailed questions about the underlying audit work — in other words, the lawyer offered the former manager dismissal from the lawsuit in exchange for her cooperation with the plaintiff. Plaintiff's counsel even insisted that the individual would need to retain separate legal counsel because his proposal had created a conflict of interest between EY and the former manager. The former manager declined the offer — but the experience demonstrates the complications in litigation that can result from naming of individual audit partners.

We also believe litigation expenses would likely increase if partners are individually named in lawsuits on a more frequent basis (which we expect would result if the Proposed Standard is adopted). An accounting firm may find it necessary to hire separate counsel for the individual partner to ensure that his/her interests are adequately protected. And a partner defendant may believe it important to his personal and professional life that a case is settled quickly, thereby potentially increasing the cost of settlement. Over time, this increased cost structure would likely result in higher audit costs.

Naming partners in lawsuits causes substantial personal harm: When a partner is named in a lawsuit, it is likely to have a devastating personal impact. A partner who is named as a defendant in a multi-million or multi-billion dollar lawsuit may be reassured by partnership colleagues that his personal assets are not at risk, but his or her friends, neighbors, relatives and business acquaintances may not know that. The ability of a partner to obtain a mortgage loan, to get his or her accounting license renewed, or to engage in other activities may be impaired while the litigation is pending. And the impact may be long-lasting. In an age of immediate internet search capability, the ability to put the personal impacts of litigation (including frivolous suits and cases won by the defendant auditor) behind an individual partner, whose livelihood depends upon his or her professional reputation, can be

[1] At the PCAOB's public meeting on 11 October 2011, Chairman Doty noted that auditors of issuers in the EU are required to personally sign the audit opinions, and he questioned why the rules in the U.S. should be different. But we submit that the litigation environments between the U.S. and Europe are completely different. Lawsuits against auditors are brought in the U.S. with much more regularity.

In this regard, we asked our global firm for information on claims that have been filed since April 2008, when the EU adopted the partner signature requirement. We determined that member firms of the EY global network located in the EU had have had five claims brought against them that relate to audit reports issued after April 2008. The individual partner was named in three of these cases, and not named in two; prior to the signature requirement, we understand that individual partners were not frequently named.

challenging. We believe the Proposed Standard would make this environment even more challenging.

As an example, one of our partners was personally sued, along with EY, in a state court action several years ago. This suit occurred in a relatively small city, where our partner's spouse ran her own small accounting business. Both our partner and his spouse were significantly impacted by the lawsuit. Her clients soon questioned whether they could continue to do business with her, given the multi-million dollar claim pending against her allegedly negligent husband. In this matter, the partner spent months defending himself through a five-week trial (which he and EY won), all the while worried about his future career, his livelihood and the impact of the litigation on his family.

Similarly, we heard from a partner who left our firm after a lawsuit had been filed against him (and against EY) to join private industry. The former partner told us that the job opportunities at his new company were limited because of the lawsuit. Years after the lawsuit had been dismissed, he believed the lawsuit (relating to a purported major fraud) still inhibited his job prospects at his new company. We also understand that some partners have experienced difficulties with respect to their service on non-profit or charitable boards as a result of being named in an audit litigation matter. It is perhaps not surprising then that individual partner liability exposure and resulting reputational damage may cause some auditors to question whether it makes sense to remain in public accounting.

Under existing case law, the liability of individual partners is unsettled: It might be said that plaintiffs are unlikely to name individual partners as defendants because, as noted above, such claims are prone to nearly certain early dismissal on the pleadings. But this is not so clear-cut.

There are two major areas of litigation brought against accounting firms such as ours. The first consists mostly of state law fraud and negligence claims asserted by bankruptcy trustees, litigation trustees, and (less frequently) former audit clients. The negligence theory is typically based on purported professional malpractice by the accountant, failure to inform the client of information discovered by the accountant, or negligent misrepresentation by the accountant.

We try to obtain dismissal of individuals named in such state court actions, but we are not always successful. This was true in a recent case. In an arbitration that took place in mid-2011, a bankruptcy administrator named a partner, a senior manager, and a manager, along with EY itself, as respondents in an action asserting negligent misrepresentation and breach of contract as to the bankrupt company. Our motion papers seeking dismissal asserted that the EY firm, not the individuals, made the purported misrepresentations to the company, and hence the negligent misrepresentation claims against the individuals should be dismissed. We stated, "The audit opinion issued by EY for the [company's] financial statements is signed by the firm as a whole and not by any member of the firm." Further, our brief noted, "[n]one of these three audit team members is in a management position at the firm." But the arbitration panel denied the motion.

A second major area of litigation is securities class action litigation under the federal securities laws. These cases are typically brought under Section 10(b) of the Exchange Act and Section 11 of the Securities Act.

As the Board noted in its proposal, the Supreme Court decision in *Janus Capital Group, Inc. v. First Derivative Traders,* 564 U.S. __, 131 S. Ct. 2296 (2011), established that a person cannot be liable under Section 10(b) and Rule 10b-5 unless he or she has "ultimate authority over the statement, including its content and how to communicate it." Thus, based on the *Central Bank* line of cases, a person does not "make" a statement unless the person has "control" over the statement. Further, the Court stated that "in the ordinary case, attribution within a statement or implicit from surrounding circumstances is strong evidence that a statement was made by — and only by — the party to whom it is attributed."

Although this standard should be helpful to individual auditor defendants, the case law under *Janus* is just now developing. If the PCAOB's rule were adopted, a plaintiff could cite the audit report's assertion that a particular audit partner was "responsible" for the issuance of the audit report and, hence, he or she had "ultimate authority" or "control" over the report — possibly sufficient to survive a motion to dismiss under *Janus* as a "maker" of a false or misleading statement. This has happened already. In *Munoz v. China Expert Tech., Inc.,* No. 07 Civ. 10531, 2011 U.S. Dist. LEXIS 128539 (S.D. N.Y. Nov. 4, 2011), the court held that although the accounting firm PKF Hong Kong signed the opinion on a purportedly misleading set of financial statements, there was a genuine issue of fact as to whether PKF's New York affiliate "controlled sufficiently — and thus 'made' — the statements in question" by virtue of the PKF New York firm having had "final approval" over the issuance of the audit opinion. Thus, even though the PKF New York firm did not sign the audit opinion, the court refused to dismiss a Rule 10b-5 claim against it. The status of the PKF New York firm, and its alleged control over the issuance of the audit opinion, might be comparable to that of an audit partner's control over the issuance of an opinion. Cases such as this one make clear the risk to individual partners who might be sued for securities fraud.

Risks also would exist under Section 11, which provides for claims against "every accountant" who "has with his consent been named" as "having prepared or certified" any part of a registration statement or any report used in a registration. The SEC has not yet taken a position as to whether the proposed auditor disclosure requirement would mean that an individual engagement partner would be required to file a consent pursuant to Section 7 of the Securities Act; the issue has not yet been addressed by the SEC in any public fashion. If such a consent were required, there would be substantial additional liability exposure for the individual partner. At the very least, the legal obligations under Section 7 should be established prior to the adoption of the Proposed Standard.

In view of the uncertainty inherent in the present legal landscape, we are very concerned with the Board moving ahead with the Proposed Standard.

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In summary, we support providing additional disclosure regarding the participation of other firms in the audit report and more information on the overall responsibility of the signing firm as providing meaningful and useful information to investors. We believe the enhancements we outline above would enhance the value of such a disclosure.

We do not support inclusion of the engagement partner's name in either the audit report or in Form 2. Such disclosure would not enhance audit quality or improve investors' decision-making ability. Instead, it would likely have a detrimental effect on auditor liability and audit cost, and have the unintended consequence of providing a blow against the attractiveness of the profession.

We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff.

Sincerely,

Ernst + Young LLP

Attachment

Recommended disclosure to be included in the audit report

We are responsible for our opinion on the consolidated financial statements of ABC Company. In conducting our audit of the consolidated financial statements, we used the services of other independent registered public accounting firms that may or may not be affiliated with us through our global network. [Each member firm that is part of the network is a separate legal entity; however, all member firms follow a consistent audit methodology and are subject to a similar system of quality control.][2] We, as the signing firm, take responsibility for the audit procedures performed by the other independent registered public accounting firms and, accordingly, have supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards. We requested the other participants, either included within our global network or outside our global network (as listed in the Appendix to this report) to conduct certain audit procedures in support of the audit of the consolidated financial statements [and effectiveness of internal control over financial reporting].The audit procedures performed by other participants represented approximately xx% of total estimated hours involved in our audit of the consolidated financial statements on ABC Company as of and for the year ended December 31, 20xx.

APPENDIX:

In our audit of the consolidated financial statements of ABC Company as of and for the year ended December 31, 20xx, the other independent registered public accounting firms listed below were involved in the performance of our audit and subject to our supervision. Those firms indicated with a "*" are located in jurisdictions in which the PCAOB, as of the date of this report, cannot perform inspections.

Firms incurring 10-20% of total estimated audit hours	Firms incurring 21-50% of total estimated audit hours	Firms incurring 51-80% of total estimated audit hours	Firms incurring more than 80% of estimated audit hours

[LISTING OF PARTICIPATING FIRMS, SEPARATED INTO CATEGORIES BY NETWORK AND NON-NETWORK FIRMS]

[2] Each firm would describe their member network affiliation.

Federation of European Accountants
Fédération des Experts comptables Européens

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington DC 20006-2803
USA

7 December 2011

Ref.: AUD/PRJ/HBL/LAN/SHA

Dear Sir or Madam,

Re: FEE Comments on PCAOB Rulemaking Docket Matter No. 029, Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2

FEE (the Federation of European Accountants) is pleased to provide you with its comments on the PCAOB Rulemaking Docket Matter No. 029, Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2.

We have not expressed views on issues that focus on purely national US matters. Our general comments to the issues raised in the PCAOB proposed rulemaking that are relevant from a European or international perspective are set out below and can be summarised as follows:

1. FEE fully supports the aim of improving transparency of audits and believes that including the name and the signature of the engagement partner responsible for the audit will contribute to achieve this. The disclosure requirements should clearly state that only the names of those that <u>have responsibility</u> for the audit should be disclosed in the audit report in order not to give the perception of dilution of responsibility for the audit.
2. FEE does not believe that the proposal to disclose "*…the percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit…*" will help to improve audit quality and strongly urges the PCAOB not to go down this route.

<u>Engagement partner's signature on the audit report – Questions 1 – 11</u>

FEE fully supports the aim of improving transparency of audits and has expressed this view in our recent response to the PCOAB consultation on Reports on Audited Financial Statements.

In Europe, the signature of the audit partner on audit reports is required by the 2006 Statutory Audit Directive. European Member States may allow the signature not to be disclosed in exceptional circumstances, namely if the inclusion of it could lead to an imminent and significant threat to the personal security of that person.

FEE agrees that the name of the engagement partner, as proposed in questions 1-3, adds to the transparency of the audit. The perception is that the explicit signature does enhance the

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Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986

accountability of the signing party and therefore implicitly contributes to audit quality. The requirement to include the name of the engagement partner in the audit report is therefore from our viewpoint an appropriate approach.

Although the disclosure of the name of the engagement partner is a step in the right direction, FEE believes that such disclosure would more appropriately improve transparency for users if the signature itself would be required. The signature should therefore clearly appear at the bottom of the audit report in connection with the name of the audit firm on behalf of which the audit is carried out. In Europe, the signature is not perceived as diminishing the role of the audit firm as it is commonly understood that the engagement partner is carrying out the audit on behalf of the audit firm that is normally the party appointed by the shareholders.

The signature required in Europe is given under the provisions of the various European liability regimes for auditors and/or audit firms at national level, as also mentioned in Questions 7-11, and does not diminish the responsibility of the audit firm to establish appropriate quality control systems. The ISAs also underline this point with ISQC 1[1] establishing quality control requirements for the audit firms and ISA 220[2] setting out the quality control requirements for the engagement partner at the engagement level. In addition, ISA 700[3] requires the auditor or the audit firm, depending on national laws, to sign the audit report. Inclusion of the signature is therefore the most appropriate way to increase transparency in this regard.

The proposal in Questions 4-5 to make the signing auditor responsible for only the current year's audit contradicts the financial reporting requirements as, at least under IFRS, the financial reporting framework requires disclosures of comparative information. The scope of the audit requirement is normally "*the financial statements as a whole*", and thus includes any comparative information required by the financial reporting framework. Whether or not the engagement partner was the same for the previous year should not matter as the signing auditor should be responsible for the full financial statements. Not including such statements about who is responsible for subsections and who is not responsible would avoid inclusion of boilerplate information in an already lengthy audit report as well as avoiding giving the impression that the signing auditor is not responsible for the whole audit. Additional information about the audit team can be given outside the audit report, if found relevant.

<u>Disclosures on percentage of hours by other participants in the audit – Questions 26-30</u>

FEE does not believe that the proposal in Questions 26-30 to disclose "*…the percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit…*" will help to improve audit quality and strongly urges the PCAOB not to go down this route. Although percentages in general are a comparable measure, the criteria for calculating such a percentage will be difficult to define and therefore the information will not always be comparable.

[1] ISQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements
[2] ISA 220 Quality Control for an Audit of Financial Statements
[3] ISA 700 Forming an Opinion and Reporting on Financial Statements

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Even within the same industry sector, the number of hours spent by "*other participants in the audit*" will differ from audit engagement to audit engagement and will depend on:

- Whether or not the audit firm has members in the engagement team that have additional competences in specialised areas;
- The structure of the engagement teams;
- The business model of the audited entity and its complexity; and
- The location and number of subsidiaries of the audited entity.

Therefore, FEE cannot see how such a disclosure can be of value to the users as it will not be possible to design the criteria for the calculation of the percentages.

Disclosure when Assuming Responsibility – Questions 16 - 25

PCAOB proposes to disclose "*Other Participants in the Audit and Referred-to Accounting Firms*". The proposal[4] is to disclose *"… other independent public accounting firms and other persons not employed by the auditor that took part in the most recent period's audit* (emphasis added)*",* as referred to in Question 16.

If this requirement is only to apply in an environment where divided responsibility between two or more auditors is possible, the proposal should be fully aligned with the proposal for the engagement partner to sign the audit report as discussed above.

The European requirements explicitly require sole responsibility of the group auditor of consolidated financial statements. Whether it is in an environment of sole or divided responsibility, the disclosure should clearly distinguish between those that have responsibility for the audit and those that took part in the audit (as members of the engagement team, whether employed or not by the audit firm). Only names of those that have responsibility for the audit should be disclosed through the signature in the audit report in order not to give the perception of a dilution of responsibility. Such an approach with signatures of more than one auditor on the same audit report is seen in practice, where more than one auditor is appointed to perform the audit jointly under the requirement of sole (and therefore joint) responsibility.

For multinational audits, disclosures of those that took part in the audit, but are not employed by the audit firm, could amount to hundreds of names even if "*experts*" need not be disclosed. Such disclosure would in our view be clearly counterproductive to the aim of improving transparency of audits and is likely to blur the key messages that the audit report is to convey to its users.

FEE agrees with the proposal not to include names of experts in the audit report, as referred to in Question 19. Such disclosure will undermine and contradict the sole responsibility of the engagement partner that signs the audit report on behalf of the audit firm. Each audit engagement will vary and require a different mix of skills and expertise, on matters such as taxation, pensions, investment and asset valuations, etc. The composition of the engagement team needs therefore to

[4] As per PCAOB proposal in Appendix C, AU sec. 508 Reports on Audited Financial Statements, paragraph. 11

be a key judgment for the engagement partner, but should not be explicitly mentioned in the audit report.

With reference to Question 21, we do not believe that the disclosure in the audit report of the number of subsidiaries the auditor is responsible for would add any value to transparency. This is dependent on the structure and geographical reach of the group and under the concept of sole responsibility the group auditor is responsible for the audit of the entire consolidated financial statements.

For further information on this FEE[5] letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be or Lotte Andersen at +32 2 285 40 80 or via email at lotte.andersen@fee.be from the FEE Secretariat.

Yours sincerely,

Philip Johnson
President

[5] FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.
FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

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December 13, 2011

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: Rulemaking Docket Matter No. 29
Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2

Members of the Board,

I appreciate the opportunity to submit my comments to the Board with respect to the Proposed Amendments "Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2" (the Proposed Amendments). I retired from public accounting in 2007 after 27 years at Deloitte & Touche LLP and am currently a full-time faculty member at the University of Notre Dame teaching undergraduate and graduate courses in accounting and auditing.

The Proposed Amendments appear to reflect the notion that the investment community should grade the audit in the same way rating agencies grade securities. The Board should not expect individual investors to grade auditors. We already have a process in place to evaluate auditors and audit firms and that process falls directly under the responsibility of the registrant's audit committee. That committee is directly charged under the Sarbanes-Oxley Act with responsibility for "the appointment, compensation and oversight of the work of any registered public accounting firm employed by that issuer…".[1] Audit committees are charged with evaluating and selecting auditors. The Proposed Amendments would undermine that process.

The Proposed Amendments place too much emphasis on the role of one individual. Audits are conducted by teams of individuals; the largest audits have numerous partners, managers and staff comprising the audit team. While the signing partner has overall responsibility and signs the opinion on behalf of the firm, it's not an individual project with technical support. In many cases that lead partner is not the only key player in the conduct of the audit. For example, a partner supervising the audit of a major corporation with highly material exposure for asbestos related claims or supervising the audit of an insurance company would rely extensively on the work of the actuarial specialists who are part of those audit teams. The lead partner on the audit of a

1 Public Law 107-204, 107th Congress, July 30, 2002, "Sarbanes-Oxley Act of 2002", Sec. 301 (2) Responsibilities Relating to Public Accounting Firms

financial institution engaged in loan originations and securitizations would depend on the work of financial instrument specialists in the valuation of individual deals. Lead partners must rely on specialists in many areas including business valuation, international taxation, management information systems, government contracting, medical claims evaluation, appraisal of real estate, translation from other languages into English, computer system security, engineering and a host of others. Many engagements use multiple specialists and no one on the Board would expect the lead partner to be a specialist in all areas. Evaluation of the quality of the firm's performance as the auditor includes evaluation of its capabilities in all of the many areas of specialization that pertain to the registrant's business. That evaluation is not captured in the disclosure of a single name or in the disclosure of the countries of origin of offices participating in the conduct of the audit. However, all of that information and more is routinely considered by audit committees as they fulfill their responsibility to oversee the independent auditor.

Should the Board somehow conclude that disclosure of lead partner names and participating office locations is important to investors, I do not believe the auditors' opinion is the appropriate venue to accomplish this disclosure. Accordingly, I submit the following recommendation:

Recommendation

The Board should present its case to the Securities and Exchange Commission and request the SEC consider expanding the proxy disclosure requirements in Item 9 of §240.14a-101 to require the audit committee to disclose its consideration of the quality of the audit firm's practice and its personnel. Such disclosure would include the committee's consideration of the firm's worldwide service capabilities listing the firm's offices in key or critical locations, other participating firms' offices in key locations, as well as its consideration of the quality of the engagement team personnel under the leadership of "J. Doe, Lead Audit Partner". The disclosures proposed by the Board would therefore be made in the context of the audit committee's fulfillment of its responsibilities to oversee the independent auditor and allow it to inform its shareholders and other users of the financial statements of the basis for its satisfaction with the appointment of the firm as the registrant's auditor for the current year.

My responses to the Board's specific questions are as follows:

1. Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?

"The objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity."[2] Auditors are an important part of that process but the key part of that process is the company's management and its people. Adding an individual auditor's name does not improve financial statement disclosure or the quality of that information. The premise of this question rests on a view of the partner as the sole decision maker in the audit. This view has been perpetuated by much academic research that addresses auditor decision making as if it's done by a lone rational individual rather than a group. For large clients, audit work performed by others is likely 98% of the effort; inserting an individual name distorts that. Finally, having been an audit partner on public companies I attended many annual shareholder meetings where I was introduced; attending shareholders not only had my name but could see my face. I don't believe that gave them any more protection or assurance; and none of them ever asserted as much.

2. Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?

As one who has been a signing partner, having my name in the opinion would not have increased my level of accountability. First, having to report to an audit committee multiple times per year where one is known not just

2 Statement of Financial Accounting Concepts No. 8, Chapter 1 *The Objective of General Purpose Financial Reporting,* OB2, Financial Accounting Standards Board, September 2010

by name, but personally, gives one a great sense of accountability. Occasionally appearing before a full board of directors is also accountability enhancing. While my signings pre-date the PCAOB's existence, I can say that the prospect today of inspection by a PCAOB Inspection Team is a real accountability enhancer.

3. Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?

On a major international corporation there are a dozen or more partners and 100,000 hours or more of audit effort. One person accounting for less than 2% of that having his or her name in an opinion does not do justice to the overall effort of the firm. Casual users don't appreciate the amount of work that goes into the multi-million dollar fees and likely associate that number with the wealth of the individual partner; they have no appreciation that a $30 million fee is more than 100,000 hours of work by scores of auditors.

4. Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?

The premise of the question is that this disclosure is useful in the first place. While the disclosure might be interesting, it is not useful and cannot be improved to be made useful. However, as noted above under "Recommendation" if the proposed disclosures are determined to be necessary, they should be made in the proxy statement in the context of audit committee oversight of the independent auditor.

5. Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?

While it would certainly point out that two different individuals signed the opinions, such information would be misleading because the only key individuals who've changed roles are likely those two partners.

6. Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?

CEOs and CFOs are well known to all; their names and compensation have been publically known for decades. Auditor identities are also known by those who attend annual meetings and in my personal experience I never felt that my safety or privacy was at risk because of that. However, I do confess that my time as an audit partner appearing at annual shareholder meetings predates Facebook, Twitter, iPhones and the like. I never had analysts phone me in my office or at my home after an annual meeting to ask questions. Given PCAOB adopted professional standards surrounding client confidentiality, if investors think they will be able to phone the signing partner, ask questions and get answers, they are sadly mistaken. Other than the nuisance that will arise from attempts to "mine" the audit partner for confidential information, I don't believe there are any particular safety risks involved.

7. Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?

This is a legal question and therefore outside my expertise. However, I believe answering that question now is not possible as the individual partner's name is not disclosed in the manner proposed by the Board. While many legal minds may speculate as to the likelihood of an increase or decrease in individual exposure, my personal observation as a non-attorney is that one can neither predict how common law will develop over time nor how our court system will react to this change ten years hence.

8. What are the implications of the proposed disclosure rule for private liability under Section 10(b)?

See 7, above.

9. Would the disclosure of the engagement partner's identity affect Section 11 liability? If so, what should the Board's approach be?

See 7, above. The Board should consult with the SEC on this matter as well.

10. Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider?

See 7, above. The Board cannot predict or anticipate changes in laws that could result from such disclosure; legal systems have a way of "morphing". Given the number of states and the imaginations of attorneys, I don't think the Board is in any position to predict how an engagement partner's liability exposure might change.

11. Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?

See 7, above. Certainly if the SEC were to adopt the changes suggested in my Recommendation, above, individual and firm legal liability would still need to be evaluated.

12. If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

I see no benefit accruing to financial statement users from such a requirement. It's not costless; there are hundreds of pages for the largest firms' Forms 2 and the time involved to load that information, check it, and update it is real time. Firms have already built infrastructure just to deal with PCAOB oversight and this requirement would add to that. Investors interested enough in the registrant to attend the annual meeting likely know the name of the lead audit partner. If this disclosure is really necessary, then add it to the proxy as suggested above. Those users who really want to know about the individual firms they follow will have that information; academic researchers interested in individual partner names because they believe they'll be able to get some paper published using that information will ultimately be able to gather it from Audit Analytics or another data base the same way they currently obtain information about audit fees. Gathering this information is little more than setting up a site to allow speculative data mining. If the Board determines the information is necessary, then those who are users of the registrant's financial statements will have that information either through the Proposed Amendments or via the Proxy Statement as recommended above.

13. If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

If the Board does not adopt because the information is not considered important enough to warrant disclosure then I fail to see the purpose in adding the information to Form 2 and thus forcing its disclosure. Undertaking to gather the names of all signing partners in one place would not be done for users of registrant's financial statements but would be for use by others who are not shareholders, capital providers or analysts for a particular registrant. This strikes me as gathering information for the sake of doing so or for researchers, not for the purpose outlined by the Board in the Introduction to the Proposed Amendments.

14. Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?

For all the reasons cited above I do not believe this is a necessary disclosure. Partners retire, get transferred to other audit engagements, become office managing partners – in short there are a host of reasons for changes in the signing partner just as there are a host of reasons for changes in the many other individuals who comprise a particular audit engagement team. Again, focusing on this individual distorts the partner's role and gives this person too much importance in the conduct of an audit.

15. A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?

What would investors do with this information? Would they buy or sell securities based on a change in the signing partner on an audit? Does the Board believe that investors change their holdings now based on who is or who is not appointed as the auditor for one of their investments or based on the results of PCAOB inspections? If so, then this is a direct reflection on the audit committee and its fulfillment of its oversight responsibilities not the quality of the auditor.

16. Is it sufficiently clear who the disclosure [foreign auditors by country and firm name, other participants in the audit] *would apply to? If not, how could this be made clear?*

The premise of the question is that this is useful information. Will investors really form their portfolios based on the offices involved in an audit? If so, this is a reflection on the audit committee's performance not the quality of the audit firm.

Instituting a process to gather office identity is little more than a process to allow researchers to attempt to evaluate "audit quality" which is just as misleading as attempting to assign audit quality to an individual partner. The audit committee has the responsibility to oversee the performance of the auditor. Wholesale disclosures of this nature are unwarranted and undermine the audit committee's authority. As noted in the Recommendation above, if disclosure of this information is truly necessary it should be done by the audit committee in the proxy statement in the context of the audit committee's fulfillment of its oversight responsibilities.

17. Is it appropriate not to require disclosure of the individual who performed the EQR? If not, should disclosure of the engagement quality reviewer be required when the EQR is performed by an individual outside the accounting firm issuing the audit report or should the disclosure be required in all cases?

I agree with the Board's determination that this is not an appropriate disclosure because the partner performing the EQR is not a part of the engagement team. In my own experience as a partner performing an EQR, I was not routinely known to the audit committee or to management; when I was so known, I made sure it was clear to all that I was not part of the engagement team and did not answer to the lead audit partner; I did not attend audit committee meetings or annual shareholder meetings in my role as the EQR partner. The partner performing an EQR is one part of a firm's quality control process and, while a key part, is not the only part. In my personal experience, in difficult situations, the EQR partner is not the critical individual involved.

18. Is it appropriate not to require disclosure of the person that performed the Appendix K review?

This is even less relevant than the name of the partner performing the EQR.

19. Is it appropriate not to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor?

Not requiring such disclosure is appropriate. Disclosing identities serves to divide the responsibility for the audit among numerous firms and/or individuals rather than leaving it with the lead audit firm where it should reside. The audit is the responsibility of the lead firm as a firm; where that responsibility is permitted to be divided under present professional standards, current reporting standards are sufficient. The assessment of the propriety of such an arrangement is, again, the responsibility of the audit committee.

20. Would disclosure of off-shoring arrangements (as defined in the release) or any other types of arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangements should be disclosed?

All this does is distinguish between those situations where a firm opens a branch office of its US firm (making that a US office and its employees US employees) and where it does not. We may have exactly the same professional situation only the form would be different. Again, assessment of the impact of these sorts of arrangements is the responsibility of the audit committee, not the marketplace.

21. Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?

Again, this is the purview of the audit committee not of the investment community. This level of detail undermines the audit committee's effectiveness.

22. Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?

See the Recommendation above regarding proxy disclosure.

23. Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?

When an audit firm refers to the fact that there are other auditors who participated in the audit but for whose work the lead auditor does not assume responsibility, SEC Regulation S-X in §210.2-05 already requires the opinions and consents of those other auditors be filed with Forms 10-K and/or registration statements. Adding their names to the lead audit firm's opinion is therefore unnecessary. If the audit firm has assumed responsibility for the work of other firms, then disclosure of the identities of those firms is counter-productive and distorts the responsibility of the lead audit firm. As stated above, the analysis of this sort of information is the responsibility of the audit committee.

24. Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?

I see no reason why this should impact any firm's ability to compete. As noted above, the selection of an audit firm is the responsibility of the audit committee. The disclosure of this sort of information is already made to the audit committee and if it's not, then the committee is not fulfilling its oversight responsibilities. If the Board is suggesting that such is the case, it should work with the SEC and seek ways in which to help audit committees improve, not ways to circumvent them.

25. Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?

I'm sure there are other challenges (such as the need for consents) that will be raised in other comment letters.

26. Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?

How would capital providers use this information? Would they buy and sell securities or call a loan based on the auditors' hours? How would users distinguish changes in hours as stemming from efficiency vs. inefficiency? From changes in audit team personnel vs. changes in registrant personnel? From institution of new GAAP compliance checklists vs. PCAOB inspection preparation checklists? As noted above, this sort of information should be provided to audit committees for their use in exercising their oversight responsibilities. It should not be for public consumption.

27. What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?

Even for audit committee reporting, getting other participants to timely provide this information is often a challenge. While this sort of information is provided to audit committees it is normally not gathered in the rush of year end reporting as doing so would be a distraction for all involved.

28. Should the Board require discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosures?

No. This is all under the purview of the audit committee and should remain there.

29. Would the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated be useful to users of the audit report?

Again, this level of detail is of the nature of information to be provided to the audit committee and in my personal experience such information is regularly provided to audit committees. If the Board has reason to believe that audit committees are not fulfilling their responsibilities it should approach the SEC.

30. Is the example disclosure in the proposed amendments helpful? Would additional examples be helpful? If so, what kind?

As noted in the Recommendation above, if this disclosure is provided the audit committee should do so in the proxy statement.

31. Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% or greater? Would another threshold be more appropriate?

Again, this level of disclosure is inappropriate and undermines the credibility and authority of the audit committee.

32. Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?

Again, this is the job of the audit committee and disclosure is inappropriate.

33. Are the requirements to disclose the name and country of headquarters' office location of the referred-to firm sufficiently clear and appropriate?

As noted above, when an audit firm refers to the fact that there are other auditors who participated in the audit but for whose work the lead audit firm does not assume responsibility, SEC Regulation S-X in §210.2-05 already requires the opinions and consents of those other auditors be filed with Forms 10-K and/or registration statements. Adding their names and other information to the lead audit firm's opinion is redundant.

34. Are there any challenges associated with removing the requirement to obtain express permission of the referred-to firm for disclosing its name in the audit report? If so, what are the challenges and how could they be overcome?

Any discussion of disclosing the name of a "referred to firm" in the opinion is moot; such disclosure would not provide investors with any new information since the opinion and consent of a "referred to firm" must be filed with the SEC as pointed out above. The express permission of a participating firm is not something for which the lead audit firm bargains; the participating firm is notified that it will be relied on and its opinion and consent will be required. If it is unwilling or unable to comply, it can't be the auditor for that subsidiary and the lead audit firm must conduct the audit itself with its own member firms despite the preference of the registrant that another firm be used.

35. In situations in which the audit report discloses both the referred-to firm and other participants in the audit, would using different disclosure metrics (e.g., revenue for the referred-to firm and percentage of the total hours in the most recent period's audit for the other firms and persons) create confusion? If so, what should the disclosure requirements be in such situations?

Again, this assessment is the job of the audit committee not the investment community.

I appreciate the opportunity to offer my comments.

Sincerely,

s/ James L. Fuehrmeyer, Jr.

James L. Fuehrmeyer, Jr. MBA, CPA
Associate Teaching Professor

Grant Thornton

January 9, 2012

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Re: PCAOB Rulemaking Docket Matter No. 29, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*

Dear Board Members and Staff:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) *Proposed Amendments to PCAOB Auditing Standards and Form 2*, and we respectfully submit our comments and recommendations thereon. Overall, we support the Board's initiative to evaluate the transparency of audits and the accountability of auditors and to consider possible changes that might provide value to the marketplace. Nevertheless, we have several reservations regarding the proposed amendments. We do not agree with the premise that transparency in the form of identifying the engagement partner and other audit participants in the audit report or in Form 2 will accomplish the goal of increasing accountability or improving audit quality. Further, we are concerned that investors, issuers, and auditors might suffer unintended negative consequences if such disclosures become required.

To enhance investor protection, we believe that a focus on continual improvements to the system of oversight and quality control should be the primary method of achieving the goals of ensuring accountability and improving audit quality. Such improvements should focus on audit firm and regulatory supervision of both firms and engagement partners. In that regard, we also believe that the expansion of the PCAOB's inspections of non-U.S. firms will increase the accountability and transparency for those firms. In addition, the efforts being made by the accounting and auditing profession and each of the firms individually to enhance and develop root cause analyses should prove to be a powerful tool in identifying potential audit quality issues, particularly for specific individuals. Finally, we would note the significant changes in standards related to the execution of the audit that have recently become effective or are currently being contemplated. In consideration of all of these activities, we believe that further actions such as those in the proposed amendments are not necessary or beneficial.

Our specific comments and concerns, which align with the specific proposals in the PCAOB's release, are provided below.

Disclosure of the engagement partner

We previously indicated in our letter, dated September 11, 2009, in response to the Board's *Concept Release on Requiring the Engagement Partner to Sign the Audit Report* that we support the overall goal of increasing transparency. Effective audit transparency provides investors with information that helps them understand (1) how the audit was conducted, and (2) whether the audit firm conducts audits with an appropriate level of quality. The goal in providing such information is to enhance investors' ability to make investing decisions that fit within their risk tolerances. It is critical, therefore, that the information disclosed be of such a nature that it is unlikely that it could be misconstrued, thus leading investors to make decisions they would not otherwise make because the information paints an incomplete picture of the audit or audit quality. In the current financial reporting process, the audit committee is ascribed primary responsibility for assessing the completeness of the auditor's proposed audit approach and response to audit findings as well as assessing the quality of the audit team and audit firm.

Beyond providing investors with valuable information, the Board's proposal contemplates that increasing transparency by disclosing the engagement partner's name will also increase partner accountability. We continue to reject the notion that disclosing partners' names will somehow make them feel more accountable than they do today. Engagement partners, especially public company audit partners, are held accountable through a wide array of oversight mechanisms. Additionally, each partner wakes up every day knowing that their audit work will be subject to scrutiny by others – sometimes intense scrutiny. Such oversight includes the engagement quality reviewer, the firm's national office consultation requirements, the firm's domestic internal inspection program, the firm's global inspection program (for global firms like ours that have such programs), PCAOB inspections, peer review inspections (for non-public audit work), and Department of Labor inspections (for audits of employee benefit plans). Further, every engagement partner knows that their public clients' financial statements are subject to mandatory periodic SEC review, which could lead to questions related to the audit. Even further, audit documentation is regularly subpoenaed in connection with regulatory examinations or litigation. Whenever a partner signs an audit report, the partner knows their reputation, their compensation, and possibly, their careers are on the line. It is not conceivable for the disclosure of their name to enhance that sense of responsibility. It is possible, however, for the disclosure of the engagement partner's name to harm partners, investors, and issuers.

Having addressed the issue of engagement partner accountability, the only remaining potential benefit of disclosing engagement partner names is improvement to the information investors use to make decisions. It is here that we find our greatest concerns about the proposed amendments. In order for disclosure of the partner's name to enhance investor decision making, it must tell them something they need to know to make an informed decision, and it must be complete and accurate. Using those criteria, we ask what value investors could gain by knowing the engagement partner's name? The Board's release suggests that identifying the engagement partner in the audit report might afford users "the opportunity to evaluate, to a degree, an engagement partner's experience and track record." One might suggest that investors could link a partner's name to the audit of another company that had restated its financial statements due to error or fraud, thus drawing some inference about that partner's quality; but such an inference would be wildly incomplete. It would not, and could not, take into account other factors outside of the partner's performance on the engagement; factors such as the root cause of the restatement, the details of the client's internal control system, the role the audit committee, management, and internal audit played in the restatement, the extent of consultation with others in the firm, the fact that the audit teams beneath the engagement partner could be entirely different on both engagements, and so forth. Drawing a conclusion about potential audit quality simply through the name of the engagement partner is analogous in some respects to judging a book by its cover. It is one small data point in a vast array of information relevant to the conduct and oversight of an audit. That is why the auditing profession has the far reaching accountability structure described earlier. By the time an engagement partner's name rightly becomes associated with low quality audit work – enough of a risk to influence an investor's decision – that partner's work will already be under intense scrutiny by others, including the PCAOB.

It is not possible for investors, by knowing a partner's name, to make a truly informed investing decision. It is, however, entirely possible for investors to use the partner's name, in the absence of complete information, to make uninformed decisions that they would not otherwise make. Doing so will bring unintended harm to engagement partners, issuers, and ultimately to the investors these proposed amendments are seeking to help.

The Board's release seeks to support the notion of disclosing partner names by drawing an analogy to the certification and assertion requirements of a public company chief executive officer (CEO) and chief financial officer (CFO). However, CEO and CFO certifications and assertions are only associated with a single company. Assume Company A has a restatement due to error or fraud. Investors in Company B, C, and D, which may be in the same geographic area or industry, are not likely to suffer stock price declines because Company A's CEO and CFO signed public certifications and assertions. Alternatively, assume all four companies have the same engagement partner and that partner's name is disclosed. It is entirely possible for Companies B, C, and D to suffer stock price declines merely by the association of the same engagement partner – even though investors in those companies do not and cannot have complete information about the audit quality related to their specific investees. Accordingly, inappropriate third party inferences may negatively affect other market participants.

Additionally, the identification of the engagement partner could personally affect that partner. If there was an existing issue involving the issuer, including the name of the engagement partner could result in severe negative consequences to that partner without due process. As we previously communicated to the Board, engagement partners and their families could be subject to unwarranted or unwelcome communications from disgruntled shareholders and others. At a minimum, audit committees of other clients served by that partner may feel compelled to force prematurely a change in engagement partners merely for public perception reasons. For these reasons, and the potential for increased litigation described below, we believe that it is likely that high-quality audit professionals will choose either to leave the profession or refuse to serve as engagement partners on issuer audits if the proposed amendment is adopted.

Proposed audit report disclosure

If the Board were to adopt an approach whereby the engagement partner's name is disclosed in the audit report, we believe that the Board must first collaborate with the U.S. Securities and Exchange Commission (SEC) so as to further consider and evaluate the potential liability implications. Although it may be possible that such disclosure may not increase liability under Section 10(b) of the Securities and Exchange Act of 1934, we share the concerns expressed by others as to increased liability under Section 11 of the Securities Act of 1933. We also question the potential partner liability implications related to consents under Section 7 of the Securities Act of 1933 with respect to being named in the SEC filing; that is, whether the engagement partner must file a consent based on the name disclosure and, if so, the related liability implications. As the Board does not intend to increase an engagement partner's liability, it would be prudent for the PCAOB to obtain the SEC's views and clarifications with respect to these matters prior to adopting a final standard, specifically the SEC's conclusions that the name identification would not increase liability under the Securities Act of 1933 or the Securities and Exchange Act of 1934 and that a consent is not required.

Regardless of any PCAOB or SEC clarifications with respect to a partner's liability under the Securities Act of 1933 or the Securities Exchange Act of 1934, we have little doubt that more engagement partners would be named in private litigation. Even though an engagement partner may ultimately be found to have fully complied with all professional standards and regulatory requirements, being named in litigation seriously affects a partner's life for many years, including both personally (such as the inability to obtain or refinance a loan) and professionally (such as the refusal by audit committees to accept the individual as the engagement partner).

With respect to the proposed name disclosure itself, the Board requested comments as to whether the disclosure clearly describes the engagement partner's responsibilities. We believe that to clearly describe such responsibilities, an extensive narrative would be necessary. Nonetheless, we recognize that the Board is limiting the disclosure of the engagement partner to the most recent period to address certain practical issues raised in comments received on the Concept Release. We continue to believe that the firm is responsible for all periods on which it is reporting and that disclosing the engagement partner's name for the current period can imply that there is a difference in the balance of responsibility between the firm and the partner from year-to-year. This issue can seem compounded with the proposed differences in reporting when there are changes in the engagement partner and when the engagement partner was responsible for all periods presented. With respect to the specific proposed amendments to AU section 508, *Reports on Audited Financial Statements*, we request that the Board also consider the following should this proposal be adopted final:

- Reconsidering the dual-dating disclosure requirements. Although this may seem to provide more transparency, we are concerned that the engagement partner reporting on the event resulting in the dual-dated audit report may be inappropriately associated with that event. For instance, if the dual date resulted from a restatement to correct an error and a partner other than the original engagement partner audited the restatement, the partner dual-dating the audit report could be inappropriately associated with the restatement.

- Addressing other report reissuances. The proposed standard does not clearly indicate that when a predecessor auditor reissues the audit report for comparative purposes, the reissued report can eliminate the reference to the engagement partner responsible for the audit. We assume this would be appropriate since the engagement partner need only be disclosed for the most current period, rather than the most current period audited by the firm. Also, when an audit report is reissued and dual-dating is not an option, it is not clear what a firm is expected to do when the report is re-dated as of a later date and a different partner was responsible for bringing the report date current. We cannot envision a practical solution to address this particular situation.

- Modifying the proposed language in the standard disclaimer of opinion. Although this is expected to be rare for issuers, it may not be as rare for non-issuer broker-dealers. As such, we propose eliminating the notion that an audit was completed by using language similar to the following: "The engagement partner responsible for this report *(on the 20XX financial statements)* was [name]."

Proposed amendment to Form 2

Although disclosure in Form 2 would allow investors, audit committees, and other third parties that seek the name of the engagement partner and other audit participants to obtain such information from one location, we reiterate our reservations with respect to the potential for inappropriate investor inferences from one audit or company to another and for other negative consequences that are discussed herein and in our previous letter to the Board.

Utilization of Form 3

When there is a change in the engagement partner, we do not support a requirement to file a Form 3, whether the change pertains to rotation or otherwise. In our view, a Form 3 disclosure has a high potential for causing more confusion than benefit, especially if no explanation for the change or for the related quality control procedures that are in place to address the change is provided. We believe that, in some case, it may not be reasonably possible to disclose the reason for the change due to, for example, privacy laws and restrictions. From a different perspective, however, a Form 3 disclosure would further promote the responsibility of the engagement partner and minimize the role of the firm. The disclosure may also potentially alarm investors that a change has occurred outside of the normal rotation period, indirectly inferring that the quality of the audit or the auditor's independence may be affected. To enhance investor protection, we would support the development of standards that address firm quality control procedures in situations in which an engagement partner has unexpectedly changed during the course of an audit engagement. Such standards could include discussions with the audit committee regarding the qualifications of the new engagement partner and the related firm quality control measures.

Disclosure of other participants in the audit and referred-to firms

We can understand the need for transparency regarding other participants in the audit. Yet, we have certain fundamental concerns with disclosing such participants in the audit report. First, without providing extensive information, any such disclosure could create a high level of confusion as to the role of those other participants. We believe that the illustrative examples provided by the Board point out the confusion that could arise as to the responsibility of the principal (group) auditor and the lack of information about the nature of the work performed by each participant. For instance, confusion may result with respect to the differences between assuming responsibility and making reference. Currently, when assuming responsibility for another auditor's work, the audit report does not mention the use of these other auditors so as not to detract from the group auditor's overall responsibilities. We believe that the proposed disclosure may have this effect, especially combined with the disclosure of the percentage of hours attributable to the other participants in the engagement.

Second, we have significant concerns with the belief that the proposed disclosure would enable investors and other report users to consider disciplinary history and whether the other audit participants are subject to PCAOB inspection and the belief that providing such transparency is warranted because the quality of services provided by other firms may vary. These beliefs would seem to undermine the overall credibility of the audit report. In that respect, one may infer through the statements in the Board's release that an audit report is less reliable if an audit firm used another firm that, for example, has had some disciplinary history even though the firm signing the report will have considered that history and put appropriate oversight procedures in place. Promoting a marketplace whereby the level of assurance provided by an audit report is determined based on limited knowledge of the use of other audit participants (absent relevant information about quality control processes in place to assume responsibility) does not seem to be in the best interests of the marketplace. To enhance investor protection, we would support the development of standards that more fully address the use of other audit participants and the relevant considerations related to PCAOB inspections or lack thereof.

We would like to point out that, in many cases when assuming responsibility, the other audit participants are members of an international network of firms that generally maintain the same or similar quality control processes. We are concerned that investors and other report users may not fully understand the relationship of these member firms to the firm signing the audit report. The Board may need to consider the ability of an audit firm to clarify, within the audit report, the relationship with its network firms, consistent with their network firm agreements. For instance, an audit firm may be required to describe the legal relationship and the separate and distinct responsibilities of member firms within the network. That said, however, it is possible that such a description may cause additional confusion as to the group auditor's overall responsibilities. The disclosure of other audit participants could also affect the willingness of firms, regardless of whether they are member firms, to participate in certain audit engagements.

We are also concerned with adopting changes to the standard audit report in advance of finalizing the Board's more comprehensive project regarding the auditor's reporting model, as well as the Board's project on audits performed by other auditors. We do not view this transparency matter as a separate, standalone issue and believe that the Board should consider these proposals concurrently.

Disclosure when assuming responsibility or supervising

Should the Board adopt the proposal, we generally agree with the scope of the requirement to limit the disclosure to other participants performing audits and audit procedures whereby the audit firm assumes responsibility for the work performed, while excluding engagement quality reviewers, specialists, and those performing Appendix K reviews. It should be noted, however, that some firms, like ours, may have adopted, in addition to all relevant PCAOB standards, the general principles for group audits under International Standards on Auditing (ISA). Accordingly, prior to adopting the proposal, we suggest that the Board consider its other standard-setting activities related to audits performed by other auditors. The ISAs provide guidance with regard to the work to be performed on significant components and other insignificant components. In this regard, should the Board adopt a similar approach, the requirements for when disclosure is made in the audit report could be linked to the significance of the component. In addition, we believe that the Board should consider our comments above related to dual-dating and other report reissuances and their potential effect on the disclosures related to other audit participants. That said, we do not believe that the disclosures would need to be updated for report reissuances.

Percentage of hours and disclosure thresholds

We strongly believe that the percentage of total hours would not accurately portray the relevance of the work performed, particularly with a low threshold of three percent. Since investors have expressed a strong interest in knowing whether those participating in the audit are subject to PCAOB inspection, we believe that, should the Board adopt the proposal, using the "substantial role" criteria as the relevant benchmark for separate disclosure of the names and locations of each of these participants would be a much better approach. We would expect those participants that play a substantial role to be similar to those that perform an audit, adapted as necessary, for significant components, as contemplated by the ISAs (see previous discussion). In this case, disclosure of the specific percentage of hours for each participant need not be provided, as it would be clear that their role was substantial. Form 2 could then be used to disclose all other audit participants that do not play a substantial role based on their PCAOB registration and inspection status.

Should the Board adopt the amendments as proposed, it is likely that the final hours may be different than those used in the calculation of the percentage of total hours as of the report date. Accordingly, we believe that the Board would need to be cautious regarding inspection findings in this area. Significant judgments would need to be made with regard to whether the audit firm technically failed to comply with PCAOB standards, including whether the firm's audit report would need to be reissued to correct any inaccuracies. It would not be pragmatic nor in the public interest for an audit report to be reissued for this purpose outside of the requirements related to financial statement reissuances.

Disclosure when dividing responsibility

Because the SEC requires the audit report of a referred-to firm to be included in the relevant SEC filing, we believe that the disclosure of a referred-to firm's name and location in an audit report that makes reference to another auditor is not necessary. Since this information is currently transparent, it seems to us that the PCAOB could eliminate this disclosure.

We understand the Board's responsibility to respond to investor needs and enhance investor protection. However, we believe that the perceived problem related to engagement partner accountability and audit quality would not be addressed by merely providing more transparency regarding the name of the engagement partner and other audit participants. An informed judgment about audit quality cannot and should not be based solely on such information. In addition, we believe that the negative consequences related to providing such transparency, including those pertaining to SEC filings, partner privacy matters, and the marketplace in general, would be greater than any perceived benefits. Continued improvements in firm quality control mechanisms and regulatory oversight, including the PCAOB's inspection initiatives overseas, their development of standards to address areas requiring additional attention, and their issuance of specific and robust procedural guidance where improvements in executing PCAOB standards are needed, will promote partner accountability and audit quality, while enhancing investor protection.

We would be pleased to discuss our letter with you. If you have any questions, please contact Karin A. French, National Managing Partner of Professional Standards, at (312) 602-9160.

Sincerely,

Grant Thornton LLP

From: Jack Henry
To: Comments
Subject: Auditor Independence and Transparency
Date: Tuesday, December 13, 2011 5:31:10 PM

Your proposals for mandatory rotation and identification of the signing partner both strike me as solutions looking for a problem to solve. Neither proposal appears to be based on empirical evidence that the current state is broken and would be improved by either proposal.

I was an audit partner in Arthur Andersen, retiring in 2000 after 34 years. Since then I am serving or have served as an audit committee chair for over one dozen public companies. Rotation of partners has not led to any improvement in audit quality. Without audit team members having several years of experience the newly rotated partner would be less able to fulfill the requisite responsibilities. Firm rotation would cause a deterioration of quality given the length of time an auditor and audit team require to become truly knowledgeable about the client and its business.

Mandatory rotation would be impractical for major companies. Most use several of the Big 4 firms. One does the audit and the other(s) perform the nonaudit prohibited services, thus rendering them not independent and therefore ineligible to propose on becoming the auditor.

I have experienced no evidence of a lack of independence. To the contrary, auditors are even reluctant to provide advice to clients as issues arise. If the board uncovers lack of independence it is more likely that it is behavior by a rogue partner.

Identifying a signing partner is contrary to the way audits are performed. They are done by teams and the teams include more than a single partner. Major decisions are made by national offices, not signing partners.

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Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 29; PCAOB Release No. 2011-007: Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2

Dear Board Members:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's proposals to Improving the Transparency of Audits by amending PCAOB Auditing Standards and Form 2, dated October 11 2011.

By way of background, Hermes is a leading asset manager in the City of London. As part of our Equity Ownership Service (Hermes EOS), we also respond to consultations on behalf of many clients from across the world, including *(only those clients which have expressly given their support to this response are listed here)*. In all, EOS advises clients with regard to assets worth more than $140 billion.

We firmly welcome the PCAOB's attention to this important area, and are generally supportive of the proposals. In particular we welcome the proposal with regard to the disclosure of other firms involved in the audit. We believe that this is an important innovation, and it is one which we will seek to promote internationally. It is of especial importance in the context of accounting scandals where subsidiary auditors apparently resigned over concerns about some elements of the audit, something which only came to light for investors after the wider accounting issue was revealed. Having disclosure of the auditors of subsidiaries (and by implication, disclosure of when these auditors change) might prove a potential window on such emerging issues.

We answer the PCAOB's specific questions below.

Yours faithfully

Paul Lee
Director

HERMES

Disclosure of the Engagement Partner

A. The Proposed Audit Report Disclosure

1. Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?

We believe that this proposed disclosure would be a significant positive step. It would enhance transparency and accountability of the key individual involved in the audit, leading over time to more attentive audit behaviours and higher quality audits as a result. We believe that it would therefore enhance investor protection.

2. Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring the signature by the engagement partner increase the sense of accountability?

As noted above, we believe that there would be an enhanced degree of accountability from a disclosure of the engagement partner's name. We are of the view that requiring a signature would increase that degree of accountability still further, by making the individual partner reflect directly at the end of the audit about physically agreeing to the publication of the accounts.

3. Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?

We would favour requiring the audit partner to sign the accounts. As indicated about, we believe that requiring a signature would drive a higher degree of accountability than just requiring the individual to be named. We do not believe that either route would in any way undermine the clear responsibility of the firm as a whole for the audit, and so do not believe that this need be a concern to the PCAOB in this respect.

4. Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?
5. Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?

We believe that the proposed disclosures adequately and clearly describe the responsibilities, and address the concerns highlighted in the discussion. We have no suggested improvements.

6. Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?

We do not believe that there are specific circumstances in relation to the auditors which warrant treating them differently from others involved in the process. However, we are conscious of the particular circumstances which led to the exception allowing non-disclosure in the UK and EU, and were supportive of this exception being available in such rare and extreme circumstances.

7. Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?
8. What are the implications of the proposed disclosure rule for private liability under Section 10(b)?
10. Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider?
11. Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?

We are inevitably not fully informed as to the details of US law and litigation practices – and it is for this reason that we do not attempt a response to question 9, which seems to depend on a detailed reading of the legislation on which we believe we can add little value. On the broader questions and the policy approach, we are clearly of the view that naming the engagement partner, or requiring his or her signature to the audit report, should not affect the personal liability situation. The individual responsible for the audit report should be liable for fraudulent statements or omissions from it, whether or not his or her name or signature is appended to it. In our experience, litigation against the audit firm usually sees the names of the individual senior auditors attached as parties to the litigation. We believe that a naming or signing requirement would not alter this, nor increase the likelihood of action against individuals.

B. The Proposed Amendment to Form 2

12. If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?
13. If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

We believe that this disclosure requirement would be useful whether or not the proposal to require the disclosure of the engagement partner in audit reports is taken forward, and so we would support the proposed change to Form 2 whatever the broader conclusion of the PCAOB is.

14. Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?
15. A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?

One of the challenges with requiring reporting is to identify those disclosures which should be of concern from those which occur merely as a matter of course. We are concerned that a requirement to file a special report whenever the engagement partner changes risks falling on the wrong side of this balance, and generating a burden of irrelevant disclosures. We believe rather that the proposal to require a special report when an engagement partner is changed for reasons other than mandatory rotation strikes a happier balance, of potentially flagging an issue which may need to be of concern while avoiding needless reporting. While the level of filing will still be high, at least the burden under this proposal would be reduced.

Disclosure of Other Participants in the Audit and Referred-to Accounting Firms
A. Disclosure When Assuming Responsibility or Supervising

16. Is it sufficiently clear who the disclosure would apply to? If not, how could this be made clear?

We believe that the proposals are sufficiently clear.

17. Is it appropriate not to require disclosure of the individual who performed the EQR? If not, should disclosure of the engagement quality reviewer be required when the EQR is performed by an individual outside the accounting firm issuing the audit report or should the disclosure be required in all cases?

We believe that it is essential that the identity of the individual performing the EQR should remain private, and so firmly agree that it is appropriate for this individual not to be disclosed. To do otherwise might risk the independence and effectiveness of the review process.

18. Is it appropriate not to require disclosure of the person that performed the Appendix K review?

For similar reasons, we agree that it is appropriate not to require such disclosure.

19. Is it appropriate not to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor?

We agree with the proposal not to require such disclosure.

20. Would disclosure of off-shoring arrangements (as defined in the release) or any other types of arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangements should be disclosed?

We do not believe that there is useful information for investors from any disclosure of off-shoring arrangements as such. We have become concerned about targets which certain audit firms have set for off-shoring, which we do not believe is appropriate in audits which are seeking audit quality as their aim rather than just cost-effectiveness. We would expect audit committees and audit regulatory authorities to ensure that there is no diminution in quality arising from any such off-shoring activities, and would welcome disclosure of the process by which these parties carry out this responsibility – in the case of the audit committee, in the annual proxy statement – but we do not believe that disclosure in the way that the PCAOB is currently considering is required in this respect.

2. Details of the Disclosure Requirements

21. Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?

We believe that this would provide investors with highly useful information, by giving an insight into the scope and process of the audit overall, and the relationships between the different audit firms cooperating to fulfil the audit. Given that some recent accounting scandals have seen subsidiary auditors apparently resign in relation to issues which only subsequently came to light, having disclosure of the auditors of subsidiaries (and by implication, disclosure of when these auditors change) would be a potential window on emerging issues.

22. Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?
23. Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?

We believe the proposals are sufficiently clear and appropriate.

24. Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?

We believe that this proposal could have two helpful effects in terms of enhancing competition, both in effect removing some of the mystique which surrounds the Big 4 firms. First, by revealing the level of large-scale and high quality audit work already carried out by firms other than the Big 4, it would reduce the perception that only Big 4 firms are capable of carrying forward sizeable audits. And second, the disclosure of a list of different affiliated firms which are part of the Big 4 networks would emphasise that these entities are not single firms but networks with different levels of quality and effectiveness. Again, this would make clear the degree of management required of multiple firm contributions to an audit even where that audit is carried out solely within a Big 4 network, and would thereby reduce the impression that only the Big 4 networks are capable of carrying forward large audits. By reducing the mystique around the Big 4 this proposal should over time lead to a greater willingness to use rival firms and so to enhanced competition.

25. Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?

The one substantive challenge that we would identify is the need to include some materiality requirement, such that a firm responsible for carrying out less than say 1% of the audit work (probably by hours, not by fees to avoid differential pay levels in different jurisdictions affecting the materiality calculation) would not need to be disclosed. This is discussed further below.

<u>3. Disclosure of Percentage of the Total Hours in the Most Recent Period's Audit, Excluding EQR and Appendix K review</u>

26. Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?
27. What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?

As indicated above, we believe that the percentage of the total hours in the audit is the best measure of a firm’s contribution to the audit, as the only measure which is roughly comparable across borders. We do not believe that it would present major challenges; as the PCAOB indicates, this is information which is gathered routinely.

28. Should the Board require discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosures?

We would favour not setting any such requirements at the moment, and allowing firms to develop practice as they feel appropriate to aid user understanding of the information that they disclose.

29. Would the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated be useful to users of the audit report?

We support the proposals in this regard.

30. Is the example disclosure in the proposed amendments helpful? Would additional examples be helpful? If so, what kind?

We believe that the example is helpful and that no other examples are needed.

<u>4. Thresholds</u>

31. Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% or greater? Would another threshold be more appropriate?

We agree that a materiality threshold is required. As we have indicated in our response to Question 25, we believe that a threshold of 1% would be more appropriate, providing fuller information but still not overburdening the reports with excessive information. A threshold of 3% could enable much of the work in an audit not to be included in the relevant disclosures.

32. Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?

We believe that the proposed approach to those participants which are aggregated is appropriate, with the caveat that we believe the threshold should be 1% rather than 3%.

B. Disclosure When Dividing Responsibility

33. Are the requirements to disclose the name and country of headquarters' office location of the referred-to firm sufficiently clear and appropriate?

We believe that the proposals are sufficiently clear and appropriate.

34. Are there any challenges associated with removing the requirement to obtain express permission of the referred-to firm for disclosing its name in the audit report? If so, what are the challenges and how could they be overcome?

We are not aware of substantive challenges associated with this proposal.

35. In situations in which the audit report discloses both the referred-to firm and other participants in the audit, would using different disclosure metrics (e.g., revenue for the referred-to firm and percentage of the total hours in the most recent period's audit for the other firms and persons) create confusion? If so, what should the disclosure requirements be in such situations?

We believe that disclosures in different forms would not create significant confusion, and we have confidence that investors would be able to navigate the proposed information effectively, even if there is more than one disclosure metric.

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January 9, 2012

VIA EMAIL
Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Re: Rule Making Docket 029: Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits

Dear Mr. Seymour:

I am an attorney practicing in Washington, D.C., in the fields of securities regulation and professional liability. Over the years, I have represented a number of auditors. I respectfully submit these comments on my own behalf and not on behalf of any current or former client.

Question: Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?

The disclosure of the identity of the engagement partner or other participants in the audit process will not serve to protect the interests of investors or further the public interest in the preparation of informative, accurate, and independent audit reports.

The value of an audit report to the investing public resides in confidence that a defined process has been applied by a professional organization with the staff, know-how, and resources to discharge that process in a professional manner. No individual should be singled out either to add or detract from the imprimatur of the audit firm. Naming the engagement partner and other participants in the audit would be like having Rosencrantz and Guildenstern push Hamlet off the stage.

An audit firm is not marketing a pair of blue jeans where a star's signature adds to the perceived value of such a product. Having George Washington or a former high government official identified as the engagement partner will not promote the protection of investors. What happens when a registrant's investor relations department touts the fact that a former high government official serves as the audit engagement partner? I would think that fact irrelevant to audit quality. No one, however, will be able to convince the public that a George Washington audit report doesn't have a special added luster.

Another fundamental problem arising from the identification of audit engagement personnel is the addition of more information to an investment process already groaning under an excess of information. As part of its "plain English" initiative[1], data gathered for the SEC indicated: "Most participants said they do not utilize annual reports as a tool in their investment decision-making." Abt SRBI Final Report for the SEC, Focus Groups about Plain English Documents at p. 7 (May 2008) http://www.sec.gov/pdf/finalrptplainenglish052008.pdf Adding the names of audit engagement partners to the information mix will not likely improve the ability of the investing public to use and digest existing disclosures.

Most recently, in another context, the Federal Reserve Board has been examining the desirability of reducing and simplifying disclosure in the face of information overload. "While additional content helps comprehension in some cases, sometimes less is more. Too much information can overwhelm consumers or distract their attention from key content. It may be better to focus on a handful of elements rather than 'full disclosure.' " Designing Disclosures to Inform Consumer Financial Decisionmaking: Lessons Learned from Consumer Testing, 97 Federal Reserve Bulletin No. 3 at p. 21 (August 2011) http://www.federalreserve.gov/pubs/bulletin/2011/pdf/designingdisclosures2011.pdf I submit that identifying audit engagement personnel would be a further distraction from the key content of existing disclosures.

Question: 7. Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?

In describing the potential liability issues, PCAOB Release No. 2011-007 noted that the Supreme Court in Janus Capital Group, Inc. v. First Derivative Traders, 131 S.Ct. 2296, 2302 (2011), held that "[f]or purposes of Rule 10b-5, the maker of a statement is the person or entity with ultimate authority over the statement, including its content and

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[1] "Overall, SEC initiatives (e.g., the plain English initiative) to reduce disclosure complexity have not had much impact." KPMG White Paper Disclosure Overload and Complexity: Hidden in Plain Sight p. 18 [11/14/2011] http://www.kpmg.com/US/en/IssuesAndInsights/ArticlesPublications/Documents/disclosure-overload-complexity.pdf

whether and how to communicate it." Whether or not the Janus decision would eventually limit liability of disclosed audit engagement personnel, the essential point identified in Release No. 2011-007 is: "Few lower courts have yet had occasion to apply the Court's ruling in Janus and its ultimate implications will not be known for some time." Assuredly, the rule as proposed would generate litigation to test the Janus issue with its attendant costs and uncertainties. Where the ultimate benefit for investors, if any, is uncertain, and the litigation costs are sure, the brief against the rule proposal is strong.

Moreover, refraining from regulation that would encourage additional litigation would be consistent with the dominant legislative and judicial trends in securities law. The Supreme Court in Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Dabit, 547 U.S. 71, 80 (2006) reiterated the lesson of the risks it identified in Blue Chip Stamps v. Manor Drug Stores, 421 U.S. 723, 739 (1975), that "[e]ven weak cases brought under the Rule [10b-5] may have substantial settlement value . . ." The same policy considerations generated the Private Securities Litigation Reform Act of 1995. "[N]uisance filings, targeting of deep-pocket defendants, vexatious discovery requests, and 'manipulation by class action lawyers of the clients whom they purportedly represent' had become rampant in recent years. [H. R. Conf. Rep. No. 104-369, p. 31 (1995)]. Proponents of the Reform Act argued that these abuses resulted in extortionate settlements, chilled any discussion of issuers' future prospects, and deterred qualified individuals from serving on boards of directors. [H. R. Conf. Rep. No. 104-369, pp. 31-32 (1995)]." Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Dabit, 547 U.S. at 81. Consistent with these policy considerations, the Board should reject the proposed rule.

I thank you for the opportunity to submit the foregoing comments, reflecting my personal views on Rule Making Docket 029.

Respectfully submitted,

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ILLINOIS CPA SOCIETY

January 9, 2012

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society ("Committee") is pleased to comment on the Proposed Rule on Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2 (Docket Matter No. 29) dated October 11, 2011. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated.

The Board is soliciting comments on a series of amendment to PCAOB standards that would:

- Require the audit report to disclose the name of the Engagement Partner responsible for the most recent period's audit,
- Require registered firms to disclose in their PCAOB annual report on Form 2 the name of the engagement partner for each audit report already required to be reported on the form, and
- Require disclosure in the audit report about other persons and independent public accounting firms that took part in the most recent period's audit.

First and foremost, we agree with the Board's goal and intentions to provide additional transparency to investors about the audit process requiring only modest changes to the audit report. There is also an underlying assumption that this additional transparency would increase investor protection by increasing accountability of the audit profession (engagement partner and audit firm) for the preparation and issuance of audit reports.

In proposing these amendments, the Board states that its inspections show that there is significant room for improvement by auditors in compliance with PCAOB standards including those that require auditors to perform the audit with due care and professional skepticism. While the Committee does not take issue with respect to these conclusions, we do not believe that lack of accountability by either the audit firm or the engagement partner for the quality of work performed is a significant cause of noted non-compliance. Survey after survey has demonstrated that auditors are among the most trusted professionals. Independence, objectivity, and professional skepticism are qualities that audit firms require in their engagement partners on all issuer engagements and non-public engagements and these qualities are routinely evaluated through internal inspections, peer reviews, PCAOB inspections and other quality control practices within those firms. Accordingly, we believe that audit firms and engagement partners already feel themselves highly

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accountable for the quality of the work they control, perform and supervise and therefore, identification of the engagement partner in the audit report will not meaningfully heighten the accountability or provide additional investor protection. In fact, as indicated in our responses below, we believe the proposed changes may diminish investor protection by distorting the role of the engagement partner and that of the primary audit firm.

Similarly, we believe that audit firms, particularly due to the litigation and reputational exposure they incur if audit work is found to be sub-standard, already assign more experienced and capable partners to public and private company engagements. As such, we do not believe that identification of the engagement partner in the audit report will meaningfully impact such assignments.

In regards to whether identifying the engagement partner in the audit report would promote auditor independence by discouraging audit clients from inappropriately pressuring the firm to remove an engagement partner, the Committee believes that audit firms are only rarely pressured by clients to remove an engagement partner. Accordingly, public identification of the engagement partner would not have a meaningful impact. We also note that engagement partner changes occur for a variety of reasons, including mandatory rotation, retirement and relocation. Any public identification of engagement partner changes should not allow for misunderstanding that the change was due to client pressures.

As further described below, we do not believe it is necessary to report engagement partner's names on Forms 2 or 3.

Because the inclusion in the audit report of all participants in the audit process may tend to reduce the perceived responsibility of the accounting firm issuing the audit report or the perceived overall quality of the audit, we do not believe that such disclosure should be mandated.

The Committee is pleased to answer the 35 specific questions the Board has posed:

Disclosure of the Engagement Partner

1. *Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?*

   As described above, we believe that the engagement partner already feels highly accountable for the quality of the audit and therefore, that disclosure of his/her name in the audit report will not meaningfully enhance investor protection. The proposed requirement may mislead the public into thinking the individual partner acted alone, when in fact; every audit requires the coordinated effort of several individuals within the firm. The name of the engagement partner would provide no more protection to investors than the names of the chief of drilling operators of oil companies could protect the Gulf of Mexico from oil spills. Auditing firms are responsible for the proper management of an audit engagement and for implementing and maintaining quality control processes and procedures and managing its partners, employees and associates. The individual engagement partner, while having the responsibility for overseeing the audit, is acting as a representative of his/her firm and not as an individual. We additionally note that the mandatory engagement partner rotation requirements provide an internal mechanism for additional accountability within each audit firm.

2. *Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?*

   As described above, we believe that the engagement partner already feels highly accountable for the quality of the audit and therefore, that disclosure of his/her name in the audit report will not meaningfully enhance his/her accountability. Each audit firm should already have a system of quality controls, including internal and external engagement inspections, to reasonably ensure that each engagement partner has such accountability. It is the audit firm's responsibility to evaluate the partner's capabilities, experience and integrity and determine that he or she has the appropriate sense of accountability to protect the public interest. Additionally, if the engagement partner's sense of accountability is not present and auditing firms do not follow their responsibilities, neither disclosing the name of the engagement partner, nor requiring his/her signature, will impact accountability.

3. *Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?*

   As indicated above, the individual partner already bears a heavy responsibility in protecting the reputation of his/her firm and ensuring that the firm's engagements comply with professional standards. An individual partner's responsibilities with respect to review and approval of the audit engagement are already outlined in great detail in the firm's quality control documents. The audit report is issued in the name of the firm and the audit firm bears the ultimate responsibility for the quality of the work performed, not the individual partner who supervised the engagement. Disclosing the name of the engagement partner may actually distort the public perspective of the responsibility between the audit firm and that partner and serve to diminish the role of the engagement quality control reviewer and other personnel contributing to the overall quality of the engagement.

4. *Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?*

   In the event that the proposal to disclose the name of the engagement partner is adopted, the proposal is adequate to publicly disclose that individual. However, additional language might be considered valuable to clearly indicate that, while the engagement partner has overall responsibility for the audit, others within the audit firm also participate in the audit and are similarly responsible.

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5. *Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?*

   In the event that the proposal to disclose the name of the engagement partner is adopted, the proposed disclosure is adequate.

6. *Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?*

   While others, such as company management and the audit committee are much more responsible for the financial results and financial reporting than the auditor, we do not believe there is reason to treat auditors any differently than others involved in the financial reporting process.

7. *Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?*

8. *What are the implications of the proposed disclosure rule for private liability under Section 10 (b)?*

9. *Would the disclosure of the engagement partner's identity affect Section 11 liability? If so, what should the Board's approach be?*

10. *Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider?*

11. *Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?*

    We believe that an engagement partner who signs the firm's name to an audit report of a public company currently has a tremendous amount of personal liability. We do not believe that the proposed disclosure requirement of the engagement partner's name will increase this liability, particularly because the identity of that partner is easily ascertainable in any legal proceeding. Yet we are not attorneys or legal experts, and as such, we concur with several of the Board members conclusions that the Board needs to hear from attorneys or legal experts on whether these proposals will have a meaningful impact on the engagement partner's personal liability prior to finalizing these proposals. Similarly, attorneys and legal experts should comment on the potential for increased liability for other parties named in the audit report. That legal opinion however, cannot be the final determinant but rather additional information necessary to reach a rational conclusion.

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The Proposed Amendment to Form 2

12. *If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?*

    No. Having this information so easily available to investors could allow them to scrutinize individual partners based on information that will likely be very incomplete and lead to inappropriate reductions in investor's confidence of the audit report. For example, an engagement partner might be associated with companies that have entered Chapter 11 and investors might inappropriately question the suitability of audit reports signed by that partner.

13. *If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?*

    No, as described above.

14. *Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?*

    No to both, since we believe that public disclosure of the name of the engagement partner would not provide any meaningful additional investor protection.

15. *A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?*

    We would support this reporting of engagement partner changes if it were limited to identifying that a change occurred and why (e.g., partner retirement, partner relocation, partner workload adjustment) – as opposed to also disclosing the partners' names.

Disclosure of Other Participants in the Audit and Referred-to Accounting Firms

Disclosures When Assuming Responsibility or Supervising

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16. *Is it sufficiently clear who the disclosure would apply to? If not, how could this be made clear?*

    Yes.

17. *Is it appropriate not to require disclosure of the individual who performed the EQR? If not, should disclosure of the engagement quality reviewer be required when the EQR is performed by an individual outside the accounting firm issuing the audit report or should the disclosure be required in all cases?*

    As stated previously, we do not believe that the name of the engagement partner should be disclosed in the audit report. Similarly, we do not support the disclosure of the EQR, even if that person is outside the accounting firm issuing the report.

18. *Is it appropriate not to require disclosure of the person that performed the Appendix K review?*

    Even if the engagement partner is identified in the audit report, we agree that with the Appendix K reviewer should not be identified.

19. *Is it appropriate not to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor?*

    Even if the engagement partner is identified in the audit report, we agree that persons with specialized skill or knowledge should not be identified.

20. *Would disclosure of off-shoring arrangements (as defined in the release) or any other types of arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangements should be disclosed?*

    No.

Details of the Disclosure Requirements

21. *Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?*

    The survey of investors cited in the Proposal would seem to indicate that this information is useful to them. However, given the current requirement under AU 543 for the principal auditor to perform sufficient procedures to place reliance on the work of other auditors, we question the value of these proposed disclosures. Such disclosures will likely result in inappropriate conclusions by readers that audits with higher usage of other firms and non-

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employees are of a lower quality than audits with lower percentage usage of others. The proposed disclosures might also be perceived to suggest that there is shared responsibility for the audit.

22. *Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?*

    Yes, the requirements are clear.

23. *Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?*

    Yes, the requirements are clear.

24. *Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?*

    Yes, the proposed requirements will result in a perception that a higher usage of other firms and non-employees is an indication of a lower quality audit. The requirement to disclose may also prompt some audit firms or non-employees to stop providing the services, which in turn, may become a disadvantage to smaller firms who cannot as readily obtain the internal resources to do the work.

25. *Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?*

    None, other than those already noted and described below.

Disclosure of Percentage of the Total Hours in the Most Recent Period's Audit, Excluding EQCR and Appendix K review

26. *Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?*

    The percentage of hours is not a reasonable measure which could be obtained without incurring tremendous administrative burden since other firms and non-employees typically do not provide this information and may even resist doing so. Although we do not agree with the disclosure proposal, the disclosure should be limited to the nature of the procedures

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performed – such as “audited Sub X which represents A% and B% of revenues and assets” or “observed an inventory count at one location” or “performed internal control testing at two locations”.

27. *What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?*

    One challenge would be timely receipt of this information from associated firms and non-employees, since some of them may not have systems in place that would allow them to produce this information as readily as the larger American firms. There would also be the challenge of the additional costs with obtaining this information, especially for smaller firms. Additionally, it is not clear which hours should be accumulated. For example, would hours incurred doing quarterly reviews, acquisition opening balance sheet audits, reviewing of predecessor auditor’s work papers, client acceptance and retention be included or excluded from the “hours attributable to the current period’s audit”?

28. *Should the Board require discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosures?*

    The disclosure should be limited to the nature of the procedures performed – such as “audited Sub X which represents A% and B% of revenues and assets”. However, there may be some difficulties in describing the nature of the procedures performed in such a way that it would be adequately understood by a financial statement user without an accounting or auditing background.

29. *Would the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated be useful to users of the audit report?*

    If other participant disclosures are required, the distinction between the hours worked either before or after the original report date does not appear to be worth the effort it would take to accumulate and disclose that information. If instead, only the nature of the procedures performed were to be disclosed, such disclosure could more easily accommodate the distinction, if it were deemed necessary, between procedures performed before or after the original report date.

30. *Is the example disclosure in the proposed amendments helpful? Would additional examples be helpful? If so, what kind?*

    We note that the examples provided exclude the primary audit firm. Accordingly, the percentages do not add up to 100%, which could cause confusion. As noted above, we do not support disclosure of relative hours in any case.

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Thresholds

31. *Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% or greater? Would another threshold be more appropriate?*

    Disclosing the names of all firms utilized could become cumbersome and unnecessary – consider situations where there are inventory counts observed by different auditors in many locations. There could be one firm per location, leading to a lengthy disclosure adding no meaningful information to the reader. While the 3% in the Proposal appears to be an arbitrary level, there should be a minimum threshold below which individual listing would not be required. Note that disclosure of firms and non-employees, both in the reporting and in the appendix, must be clear as to the responsibilities of all involved in the overall audit opinion. As an alternative, the Board should consider allowing the decision to individually list firms or non-employees up to the discretion of the primary auditor – with appropriate guidance to make such a decision included in the Final Standard.

32. *Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?*

    As noted above, we believe that the disclosure of the hours performed by other firms and non-employees should be replaced by the nature of the procedures performed. Should the primary auditor not list every other participant, a general statement can be made that others had insignificant participation in the audit and the nature of the work they performed.

Disclosure When Dividing Responsibility

33. *Are the requirements to disclose the name and country of headquarters' office location of the referred to firm sufficiently clear and appropriate?*

    While the requirement should be clear and open to ready interpretation and implementation, it is noted that the requirement is to disclose the other firm's headquarters' office location. This may not provide useful information to the reader as often the headquarters is not the location that performs the work referred to in the opinion. We recommend that only the office doing the work be disclosed instead of the firm's headquarters.

34. *Are there any challenges associated with removing the requirement to obtain express permission of the referred-to firm for disclosing its name in the audit report? If so, what are the challenges and how could they be overcome?*

    Auditors should be explicitly informed of the use of their reports and name in other, publicly available documents. Thus, eliminating the obtaining of express permission should not be part of this proposal. It should be noted that this permission often can be obtained during the engagement letter process, thus ensuring that there would not be a delay in processing the financial statements. As an alternative, the Board should consider implementing a rule that would require the primary auditor to inform the other party in writing that they will be disclosed in the audit report.

35. *In situations in which the audit report discloses both the refer-to firm and other participants in the audit, would using different disclosure metrics (e.g. revenue for the refer-to firm and percentage of total hours in the most recent period's audit for the other firms and persons) create confusion? If so, what should the disclosure requirements be in such situations?*

    Different disclosure metrics may cause some confusion; however, we do not believe that confusion would be substantial. However, by instead only disclosing the nature of the procedures performed for any other named party, this confusion would be entirely avoided.

The Illinois CPA Society appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Kevin V. Wydra, CPA
Chair, Audit and Assurance Services Committee

James J. Gerace, CPA
Vice Chair, Audit and Assurance Services Committee

ILLINOIS CPA SOCIETY

APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2011 – 2012

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

James J. Gerace, CPA	BDO USA, LLP
William P. Graf, CPA	Deloitte & Touche LLP
Howard L. Gold, CPA	LarsonAllen LLP
Jeremy L. Hadley, CPA	Pricewaterhouse Coopers
Jon R. Hoffmeister, CPA	Clifton Gunderson LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
Michael J. Pierce, CPA	McGladrey & Pullen LLP
Elizabeth J. Sloan, CPA	Grant Thornton LLP
Kevin V. Wydra, CPA	Crowe Horwath LLP

Medium: (more than 40 professionals)

Jennifer E. Deloy, CPA	Frost, Ruttenberg & Rothblatt, P.C.
Sharon J. Gregor, CPA	Selden Fox, Ltd.
Timothy M. Hughes, CPA	Wolf & Company LLP
Andrea L. Krueger, CPA	Corbett, Duncan & Hubly, P.C.
Matthew G. Mitzen, CPA	Blackman Kallick LLP
Stephen R. Panfil, CPA	Bansley & Kiener LLP
Richard D. Spiegel, CPA	Steinberg Advisors, Ltd.

Small: (less than 40 professionals)

Scott P. Bailey, CPA	Bronner Group LLC
Julian G. Coleman, Jr., CPA	Horwich Coleman Levin LLC
Patrick J. Dolan, CPA	CJBS LLC
Robert D. Fulton, CPA	Mulcahy, Pauritsch, Salvador & Co Ltd
Loren B. Kramer, CPA	Kramer Consulting Services, Inc.
Ludella Lewis	Ludella Lewis & Company
Carmen F. Mugnolo, CPA	Philip + Rae Associates, CPA's
Jodi Seelye, CPA	Jodi Seelye, CPA

Staff Representative:

Ryan S. Murnick, CPA	Illinois CPA Society

ima
The Association for
Accountants and
Financial Professionals
in Business

January 16, 2012

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

<u>Rulemaking Docket No. 29</u>

Dear Members of the Board:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is pleased to comment on the PCAOB's proposed amendments to auditing standards and Form 2 covering disclosure in the audit report and Form 2 of the name of the audit partner and disclosure in the audit report of other firms and persons that took part in the audit.

The FRC is the financial reporting technical committee of the IMA. The FRC includes preparers of financial statements for some of the largest companies, representatives from the largest accounting firms, valuation experts, accounting consultants, academics, and analysts.[1] The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

In general, we support the second part of the proposal: to require disclosure of the name, headquarters location, and measure of involvement of other independent public accounting firms and other persons that took part in the audit. Generally, investors are unaware of this information and its inclusion will improve users' understanding of how auditors conducted the audit.

However, requiring disclosure of the name of the engagement partner would not improve audit quality or provide sufficient other value to audited financial statements. For reasons explained below, we do not favor adopting this requirement. Rather, we are in Board Member Dan Goelzer's camp per his statement at the October 11th public meeting, "In my view, the Board would need more evidence than it has now to conclude that partner identification would improve audit quality."

[1] Additional information about the IMA Financial Reporting Committee can be found at www.imafrc.org.

Suite 1
Montvale, NJ 07645
www.imanet.org

Information about other accounting firms, etc.

An important aspect of this part of the proposal is how it applies to international accounting firms or associations. As we understand the proposal, an international accounting firm performing the audit for a multi-national corporate entity with operations in many parts of the world would have to disclose that parts of the engagement were performed by its affiliated firms in, say, China, England, Argentina, Mexico, and Australia, assuming each met the materiality threshold. While firms with international associations have active quality control programs and may perform similar audit approaches worldwide, they are still separate legal entities and investors may consider that to be important information.

We agree with the statements made by Chairman Doty and Board Member Hanson when announcing the proposal:

Doty

> I am concerned about investor awareness. I have been surprised to encounter many savvy business people and senior policy makers who are unaware of the fact that an audit report that is signed by a large U.S. firm may be based, in large part, on the work of affiliated firms. Such firms are generally completely separate legal entities in other countries.
>
> Enhanced transparency into the composition of cross-border audits should help investors gain a better understanding of how an audit was conducted and make more informed decisions about how to use the audit report.

Hanson

> Moreover, even where the other firm is a member of the international network of the firm issuing the audit report, the network affiliate firm may be subject to different, and potentially conflicting, legal and regulatory requirements that investors may want to consider in evaluating the overall audit.

There is also the question of the lack of PCAOB inspection access to auditors in certain countries, most notably China at present. This disclosure would inform users that a firm's affiliate not subject to PCAOB inspection has performed some portion of the overall audit.

Given these considerations, it is reasonable for the PCAOB to require disclosure of the percentage of audit hours performed by each separate legal entity within the signing firm, subject to a materiality threshold.

Our comments on a few of the questions raised in the proposal follow.

26 **What is the best measure of the extent of other participants' involvement in the audit?** – Almost any measure of the extent of other participants' involvement will be somewhat arbitrary

so the estimated hours seem as reasonable as anything else short of trying to figure out a measure of the relative risks involved, which would not be practical.

27 **What challenges would there be in acquiring other participants' audit hours?** – There are many implementation questions such as: Will the other participants have to provide some sort of certification for their audit hours in order for the signing audit firm to be able to rely on them in making the percentage calculation? Would the signing auditor be able to obtain an interim actual number of hours and then extrapolate it to determine an estimate rather than waiting for a final actual? We think auditors would figure these things out on their own but some guidance in the final release might be helpful.

31 **What should be the minimum threshold for disclosing another auditor's participation?** The 3% threshold strikes us as too low although any number picked will be arbitrary. Based on the example in your Appendix, we suspect that investors would not have a much different impression of the situation if the threshold were 5% rather than 3%. Disclosing three different firms and over 20 percent audited by other firms would still indicate a great deal of spreading of the audit responsibility. About the only thing that might be gained in the case of a lower threshold in this example would be if the 3% and 4% countries were ones where the PCAOB was unable to inspect auditors. However, (1) the proposal does not require disclosure of whether the PCAOB can inspect auditors in the headquarters country or (2) you do not require disclosure of whether the PCAOB has inspected the firm. These factors seem to argue for a somewhat higher threshold and we think 5% would be adequate. Or perhaps there should be required disclosure in all cases when an other than de minimus part of the overall examination has been performed in a country not subject to PCAOB inspection, with a somewhat higher threshold for other countries.

<u>Disclosure of name of engagement partner</u>

As mentioned above, we do not believe that requiring disclosure of the name of the engagement partner in the auditor's report would improve audit quality or provide sufficient other value to audited financial statements.

From the proposal, it appears that the PCAOB is not convinced either. The words "could" and "might" appear often in the section explaining the Board's reasoning for proposing this requirement. For example, "The Board is, by this proposal, considering whether additional transparency about the identity of the person responsible for the engagement <u>could</u> provide investors with useful information and <u>could</u> further incentivize firms to assign more experienced and capable engagement partners to engagements." And, "As discussed above, disclosure of the name of the partner responsible for the audit <u>might</u> increase the partner's sense of accountability and <u>might</u> provide useful transparency."

In fairness, the proposal does quote a few comment letters on the earlier concept release that support the disclosure. However, we believe that in a formal proposal to amend auditing standards, the Board should express more conviction for its position based on the evidence gathered over the six years the project has been under study. If such equivocal language is indicative of Board members' real uncertainty about this matter, it is unclear what you will learn from comments on this draft beyond repeating earlier views.

Some might argue that knowing the engagement partner's name could help investors in cases where the partner was associated with repeated instances of poor reporting practices. However, these situations likely would be rare. Audit committees generally scrutinize partners' qualifications during the rotation process and are reluctant to accept weak or tainted partners. So too, accounting firms' quality control processes closely monitor partner performance for client service, firm reputation and litigation exposure. The vetting process is particularly strong for engagement partners on the largest corporations.

We are also concerned with unintended consequences such as the market unfairly tainting an engagement partner without cause or due to misunderstanding. For example, a restatement for error could occur even though the named partner had overseen acceptable audit work (or relied on the work of another firm where the problem occurred). Or, the market could be confused about which partner presided over restatement for error. This could occur, for example, when a new partner discovers a problem resulting in restatement even though a partner from a previous year's audit (unnamed in the report) might have missed the problem.

The release notes that investors and investor advocates who commented on the concept release generally agreed that a signature requirement would enhance accountability and transparency and, in turn, investor protection. We do not agree the notion that naming an individual would somehow cause greater accountability. When authorizing issuance of audit reports or certifications or sub-certifications of financial reports in the case of corporate accountants, there is already full, personal responsibility for that information. Including individual names in the audit report does not increase the already high burden of responsibility for quality financial reporting and audit work.

We also note that the issuance of the audit report is very much a "team effort." Depending on the size of the reporting company, this can involve anywhere from a few other individuals to hundreds. While the engagement partner plays a very important role in coordinating the overall audit, she or he depends on many others. To name a single individual is to imply that one person accepts responsibility rather than the firm, which we believe is the wrong representation. Thus, we strongly believe the name of the engagement partner should not be a required disclosure.

We note that the European Commission recently proposed a new auditor's report that would include the names of all members of the audit team. That would clearly be overkill but it would at least be more reflective of the team effort that pervades any engagement.

We would be pleased to respond to any questions you have about our comments. You can reach me at 212 664-1733.

Allan Cohen

Allan Cohen
Chair, Financial Reporting Committee

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January 5, 2012

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

PCAOB Rulemaking Docket Matter No. 029
Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2

Dear Mr. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2011-007, "Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2" (the Release).

The Board has requested public comment on amendments to its standards that are designed to improve transparency of public company audits. The proposed amendments would: (1) require registered public accounting firms to disclose the name of the engagement partner in the audit report, (2) amend the Board's Annual Report Form (Form 2) to require registered firms to disclose the name of the engagement partner for each audit report already required to be reported on the form, and (3) require disclosure in the audit report of other independent public accounting firms and other persons that took part in the audit.

In addition, the Board requested input on certain additional considerations not specifically included within the proposed amendments.

Overview

The Board is considering whether additional transparency about the identity of the person responsible for the engagement could provide investors with useful information, encourage auditing firms to assign more experienced and capable engagement partners to engagements and further increase the engagement partner's sense of personal accountability. In addition, the intent of the proposed disclosure of other participants in the audit includes enabling investors and other audit report users to determine whether participating firms are registered with the PCAOB, have been subject to its inspection and the results of any inspections.

We do not believe that the proposed disclosure of the name of the engagement partner, either in the audit report or in Form 2, would increase the engagement partner's sense of accountability, improve audit quality or result in registered public accounting firms enhancing their system of quality control (e.g., through changes to the assignment protocols for an engagement partner), and may create certain adverse unintended consequences.

The Board has indicated that the disclosure of the engagement partner's name would not increase or otherwise affect the duties and obligations of the engagement partner under PCAOB standards in performing the audit and that it is not intended to increase the liability of engagement partners. As further described below, we believe that in certain circumstances, a possible unintended consequence of these proposed amendments is increased liability risk for engagement partners. Furthermore, should the Securities and Exchange Commission (SEC) require issuers to file the consent of an engagement partner disclosed within the audit report as having certified any part of a registration statement, even if the engagement partner did not sign the audit report, significant increased liability for engagement partners may result.

Given the uncertainty with regard to whether this disclosure would result in increased liability, before proceeding with these proposed amendments, we believe the Board should perform its own liability assessment and cost benefit analysis and coordinate with the SEC to clarify the implications of the proposed amendments under Section 11 of the Securities Act of 1933.

If the Board proceeds to require disclosure of the name of the engagement partner, we believe the preferable alternative is disclosure only in Form 2. We believe this alternative would eliminate unnecessary redundancy between the audit report and Form 2 and is less likely to be subject to the unintended consequences we have identified relative to disclosing the engagement partner's name in the audit report. Most importantly, we believe disclosure of the engagement partner's name only in Form 2 would eliminate the question of whether an issuer is required to file the consent of the engagement partner and therefore eliminate a potential increase in auditor liability (which result is wholly consistent with the Board's intent).

We support the Board's proposed disclosure of other *key* participants in the audit, however we believe that the three percent threshold for requiring disclosure individually may be inconsistent with the intent of the Release, which is to increase transparency by providing investors with information regarding certain *key* participants in the audit process. Our interpretation of *key* participants in the audit are those firms or individuals that participated in more than 10 percent of the audit hours and as described further below, believe that this threshold is more closely correlated to certain disclosure requirements within generally accepted accounting principles (GAAP) and SEC rules and regulations.

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Furthermore, should the SEC determine it necessary for issuers to file the consent of another participant disclosed in the audit report, a significant change in the liability associated with such participation may result. Accordingly, we believe it is critical for the Board to coordinate its efforts with the SEC to ensure that the appropriate, concurrent rulemaking occurs to provide protection from any potential increased liability for other accounting firms or persons disclosed in the audit report solely as a result of the proposed amendments.

Disclosure of the name of the engagement partner in the audit report and Form 2

Impact of proposed disclosure on engagement partner accountability

The proposed amendments to disclose the name of the engagement partner in the audit report builds on the Board's July 28, 2009 Concept Release to which we submitted our response letter on September 11, 2009.[1] For reasons consistent with those described within that letter, we recognize that the proposed disclosure will increase transparency about the engagement partner with primary responsibility for the conduct of the audit, however do not believe this proposed requirement would improve audit quality.

Although the engagement partner has primary responsibility for the conduct of the audit, he or she operates within the framework of the firm's system of quality control so that the audit is conducted in accordance with professional standards.

Engagement partners possess a deep understanding of their accountability to capital market stakeholders, audit committees, regulators and the firm and its partners and of the potentially significant consequences of failing to perform audits with integrity and in accordance with professional standards. Engagement partners also are subject to internal inspection reviews and inspection by the PCAOB. Each of these factors creates significant accountability for engagement partners to the users of the audit report. We do not believe that disclosing the engagement partner's name in the audit report or Form 2 would enhance his or her sense of accountability.

Because the proposed requirement to disclose the name of the engagement partner does not change the standards related to the conduct of the audit, there does not appear to be any correlation of such disclosure with needed changes in a firm's system of quality control.

[1] Refer to our September 11, 2009 comment letter response to the Board's Release No. 2009-005 that includes a Concept Release on Requiring the Engagement Partner to Sign the Audit Report at http://pcaobus.org/Rules/Rulemaking/Docket029/021_KPMG.pdf

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Furthermore, the audit committee has primary responsibility for the appointment, compensation and oversight of the auditor. This responsibility, combined with existing requirements for the audit firm to communicate significant matters to the audit committee, results in significant interaction throughout the year between the audit committee and the engagement partner. This interaction enhances the audit committee's ability to oversee the auditor, and reinforces the engagement partner's direct accountability for the performance and conduct of the audit.

Potential unintended consequences of disclosing the engagement partner's name

Disclosing the engagement partner's name rather than requiring the engagement partner to individually sign the audit report, as suggested within the July 28, 2009 Concept Release, could help mitigate certain concerns described within our September 11, 2009 comment letter, although would not fully alleviate those concerns. Our primary concern relates to a potential increase in engagement partner liability that is further described below.

In addition, we believe that disclosing the name of the engagement partner with primary responsibility for the conduct of the audit may create a misunderstanding of the role and responsibility of the firm in issuing the audit report. Specifically, an inappropriate inference may be drawn by the marketplace that the engagement partner is responsible for the effective operation of firm-level quality controls.

The Release identifies the question of potential security risks to engagement partners as a result of the disclosure, as well as noting some concerns raised in the comment letters to the July 28, 2009 Concept Release relative to investors contacting and seeking information from the partner that simply cannot be communicated under the auditor confidentiality requirements for registered public accounting firms.[2] KPMG takes security risks of its professionals seriously, and acknowledges the Board's statement in the Release that it also takes concerns about personal security seriously. We believe that the Board should address both of these issues in its cost benefit analysis prepared in adopting a final standard.

These unintended consequences may be only partially overcome by identifying the engagement partner only within Form 2. Challenges related to the recruitment and retention of the most qualified professionals could be exacerbated by the perception of increased personal security concerns.

[2] We note that Footnote 27 of the Release states "…the partner could simply decline to comment." We believe under auditor confidentiality requirements, the auditor must decline to comment.

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Potential implications on personal liability

The Board indicated that it did not intend to increase the liability of engagement partners as a consequence of the proposed disclosure. We believe, based on our evaluation of the provisions of Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934 and Section 11 of the Securities Act of 1933 (the ’33 Act), and relevant case law, that an unintended consequence of the proposed amendments could be a significant increase in engagement partner liability.

Under Rule 10b-5, “it is unlawful for ‘any person, directly or indirectly, [t]o make any untrue statement of material fact’ in connection with the purchase or sale of securities”. The United States Supreme Court has held that, “for purposes of Rule 10b-5, the maker of the statement is the person or entity with ultimate authority over the statement, including its content and whether and how to communicate it”. As described within the Release, in June 2011, the Supreme Court considered what it means to “make any untrue statement of material fact” under Section 10(b) and Rule 10b-5 in *Janus Capital Group, Inc. v. First Derivate Traders*, 131 S.Ct.2296 (2011). We believe that a proper application of this case law to the Board’s proposed decision to disclose the engagement partner’s name should not result in an increase in the liability of the engagement partner. However, to date no court has considered this argument and we believe it is conceivable that some courts may read this case law differently. Furthermore, plaintiffs can be expected to assert claims against named engagement partners despite the *Janus* decision. Until case law becomes settled on these matters, we believe that the cost to defend such claims could be significant.

Section 11 of the ‘33 Act allows for claims against “every accountant” who “has with his consent been named” as “having prepared or certified” any part of a registration statement or any report or valuation used in a registration statement. Liability under this section is not dependent on whether the accountant signed the report, but rather on whether the accountant consented to being named in it. Section 7 of the ‘33 Act requires issuers to file the consent of any accountant who is named as having prepared or certified any part of the registration statement. Should it be determined that issuers are required to file the consent of an engagement partner whose name is disclosed in the audit report, significant increased liability for engagement partners may result.

We believe that the Board should defer deciding whether to adopt the proposed amendments until the SEC makes clear by rule that any disclosure requirement would not increase liability under Section 11 and that a consent pursuant to Section 7 and Rule 436 would not be required.

Increase in personal liability would not only increase costs but will also exacerbate the retention and recruitment, as well as potentially decrease the willingness, of the best qualified partners to oversee higher risk audit engagements.

Preferred alternative – Identification in Form 2 only

If the Board proceeds to require disclosure of the name of the engagement partner, we believe the preferable alternative is disclosure only in Form 2. This approach would provide investors with a convenient mechanism to retrieve information about a firm's engagement partners on its issuer audits while potentially avoiding unnecessary redundancy between the audit report and Form 2 and certain unintended consequences associated with identification in the audit report.

Specifically, we believe that disclosing the name of the engagement partner within Form 2 would not require the engagement partner to consent as having certified any part of the registration statement and accordingly, we believe that this alternative would avoid additional liability exposure under Section 11.

Other implementation issue

Disclosure about engagement partner changes. The Release requests input on whether the Board should require registered public accounting firms to file a special report on PCAOB Form 3 that provides an explanation surrounding any change of an engagement partner for reasons other than mandatory partner rotation. We do not support a requirement to provide an explanation of the reasons for the change as these reasons often are not related to the audit or audit quality, may result in the potential for inappropriate inferences by investors and provide investors with little informational value about the issuer, its financial statements or the audit.

A change in the engagement partner prior to the end of the mandatory rotation period can occur for many reasons. We believe that audit committees are in the best position to determine and monitor the specific facts and circumstances surrounding the change, as well as the qualifications of the successor engagement partner. Additionally, we note that the change will be reflected in Form 2 if the Board adopts that proposed change. Accordingly, we would not support a requirement for a registered accounting firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation.

Disclosure of other participants when assuming responsibility or supervising

The proposed amendments would require certain disclosures when the auditor assumes responsibility for, or supervises the work of, another independent public accounting firm or supervises the work of other persons not employed by the auditor that performed audit procedures on the audit. These disclosures include the name of the other participants, the location where the other participants are headquartered or reside and the percentage of hours attributable to the audit or procedures performed by the other audit participants in relation to the total hours for the most recent fiscal year's audit.

As noted in the Overview section above, should the SEC determine it necessary for issuers to file the consent of another participant disclosed in the audit report, a significant change in the liability associated with such participant may result. Accordingly, we believe it is critical for the Board to coordinate its efforts with the SEC to ensure that the appropriate, concurrent rulemaking occurs to provide protection from any increased liability to other accounting firms or persons disclosed in the audit report solely as a result of the proposed amendments.

Subject to the discussion in the immediately preceding paragraph, we support the Board's proposed disclosure of other *key* participants in the audit and agree that the percentage of audit hours is the most practical metric of the extent of other participants' participation in the audit.

Threshold for disclosure. The proposal requires that other participants in the audit whose individual extent of participation is three percent or more of total hours in the most recent period's audit be disclosed individually. We believe that this threshold may be inconsistent with the intent of the Release, which is to increase transparency by providing investors with information regarding certain *key* participants in the audit process. For example, assuming a correlation between audit hours and total assets or revenues, the proposed amendments may require specific disclosure of a particular location in the audit report that does not require disclosure within the financial statements.

Our interpretation of *key* participants in the audit are those firms or individuals that participated in more than 10 percent of the audit hours and believe that this threshold is more closely correlated to certain disclosure requirements within GAAP and SEC rules and regulations. FASB ASC 280, *Segment Reporting*, requires the disclosure of separate information about an operating segment with reported revenue or reported profit or loss in excess of 10 percent of the respective combined amounts (as adjusted in certain circumstances) and together with Regulation S-K Item 101(d) requires disclosure of information about both revenue and assets by geographic area, including revenues from an individual foreign country, *if material*. While the guidance does not define "material" for purposes of the individual disclosure requirement, a reasonable approach often applied by registrants is if operations in an individual country represent external revenues or long-lived assets greater than 10 percent of the consolidated totals, the presumption is such country's operations are material and should be disclosed separately. A similar 10 percent threshold is applied within the provisions of FASB ASC 932, *Extractive Activities – Oil and Gas,* for determining whether an entity is regarded as having significant oil and gas producing activities. Furthermore, for those entities with significant oil and gas producing activities, SEC rules and regulations require additional disclosure of oil and gas reserve information for each country containing 15 percent or more of the entity's proved reserves.

In addition, the PCAOB has defined a threshold with respect to other participants that play a substantial role in preparing or furnishing the audit report. This definition includes those other participants that (1) perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report,[3] or (2) perform the majority of the audit procedures with respect to a component with assets or revenues that constitute 20 percent or more of the consolidated assets or revenues. We believe that a 10 percent threshold strikes the right balance between the GAAP disclosure requirements and the need for transparency, while at the same time allowing for increased transparency when compared to a 20 percent threshold (i.e., substantial role definition).

"Other offices" of the firm. Some audit firms currently use off-shore locations to perform certain audit procedures in a cost efficient manner and such operations are typically located in a country different from where the firm is headquartered. The proposed amendments would not require disclosure of such arrangements to the extent that the off-shored work is performed by another office of the same accounting firm (even though that office may be located in a country different from the country where the firm is headquartered). The proposed amendments are not clear how to make the determination whether an off-shore location should be considered another office of the firm.

For legal, tax or business reasons, firms may structure their operations in separate legal entities based on functional (audit, tax, advisory) or geographic distinctions. These separate legal structures often are wholly-owned and controlled by the registered public accounting firm and its partners. Apart from the form of organization, such wholly-owned and controlled subsidiary entities function in virtually all other respects as 'other offices of the firm' and the disclosure of their participation in the audit would not serve the intent of the Release and could be confusing. Furthermore, the alternative legal structures of these arrangements may result in a lack of comparability between similar audits performed by different firms purely as a result of a different legal structure.

[3] "Material services" means services, for which the engagement hours or fees constitute 20% or more of the total engagement hours or fees, respectively, provided by the principal accountant in connection with the issuance of all or part of its audit report with respect to any issuer.

We believe that the required disclosure of work performed through such an arrangement would not provide further transparency into the audit but may rather create additional confusion. Accordingly, we believe that the determination of whether off-shoring arrangements should be disclosed as "participating firms" should be based on different criteria than those proposed in the Release. For example, if the off-shored work met the following criteria, we believe the work should not be separately disclosed, regardless of the legal form of the off-shoring arrangement:

- The work performed at the off-shore location is subject to the direct supervision and review of the principal auditor, and
- Details of the work performed is retained within the principal auditor's documentation in accordance with PCAOB Auditing Standard No. 3, and therefore is subject to PCAOB inspection in the home country of the principal auditor.

Furthermore, certain firms may share ownership of their off-shoring arrangements with other member firms in a network. Provided that the above criteria are still met, we believe that such work should also not be separately disclosed.

Other implementation considerations

Clarification of the percentage of total audit hours. We encourage the Board to include in the final standard an illustrative example of the calculation of the percentage of the total audit hours that clearly demonstrates the impact of other participants where the firm assumes responsibility or supervises the participants' work, divides responsibility with another firm and performs only statutory audits at certain locations. This example should clarify that the calculation of total hours in the most recent period's audit would exclude those hours related to statutory audits that are not a part of the principal auditor's scope when completing the consolidated audit opinion.

The Board also should clarify the disclosure requirements in instances where participating firms in the audit obtain assistance from other firms in performing audit procedures at components within other jurisdictions. For example, a U.S. accounting firm may assume responsibility for the work performed by a member firm headquartered in the United Kingdom. If the United Kingdom member firm engages another member firm headquartered in Germany to perform certain audit procedures over a component in Germany, it is unclear how the German member firm should be considered for disclosure.

The final standard should also specifically indicate that the measure of engagement hours is an estimation of total expected hours based on available information at the report release date.

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Multiple legal entities within a network firm in a particular country. The proposed amendments require disclosure of other participants with whom the auditor has a contractual relationship. Certain member firms in an international network may deliver audit services through several separate legal entities in a particular country. These individual entities are generally under the control of the member firm and are subject to the same system of quality control, however are structured as separate legal entities. We believe that the Board should clarify in the final standard that audit procedures performed by separate legal entities within a particular country should be measured and presented on a combined basis to the extent that these entities belong to the same member firm with which the auditor has a contractual relationship.

Clarification of the auditor's responsibility within the audit report. We are supportive of the proposed amendments that require the inclusion of a statement in the audit report that the auditor is responsible for the audits or audit procedures performed by other participants in the audit and has supervised the work of other participants in the audit or performed procedures to assume responsibility for the work of other participants in accordance with PCAOB standards.

Discussion of the nature of the work performed by other participants in the audit. The Release questions whether the Board should require a discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the proposed disclosure. We do not support such disclosure as we question whether it will be possible to sufficiently describe the nature of the work performed in a concise manner appropriate for the audit report without creating disclosure overload and detract from the purpose of providing useful information to investors.

Dual-dated audit reports. We do not believe the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated would be useful to users of the audit report. A dual-dated audit report already highlights those financial statement disclosures that were added or revised subsequent to the original report date and we question the benefit of disclosing to investors the extent of audit effort dedicated to certain specific disclosures.

* * * * * * *

We appreciate the Board's careful consideration of our comments, and support the Board's efforts to increase the transparency of audits. We would be pleased to answer any questions regarding this comment letter.

Very truly yours,

KPMG LLP

Cc:

PCAOB	**SEC**
James R. Doty, Chairman	Mary L. Schapiro, Chairman
Lewis H. Ferguson, Member	Luis A. Aguilar, Commissioner
Daniel L. Goezler, Member	Daniel M. Gallagher, Commissioner
Jay D. Hanson, Member	Troy A. Paredes, Commissioner
Steven B. Harris, Member	Elisse B. Walter, Commissioner
Martin F. Baumann, Chief Auditor and Director of Professional Standards	James L. Kroeker, Chief Accountant
	Brian Croteau, Deputy Chief Accountant

January 9, 2012

The Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Email: comments@pcaobus.org

Re: PCAOB Docket No. 029

We are young auditing scholars who are in the process of developing a three-link model that explores the potential impact of engagement partner identity disclosure on auditor independence. While we greatly applaud the PCAOB's efforts to implement changes to the audit process aimed at increasing audit quality, we urge caution with respect to this particular proposal. We do not dispute the notion that such a requirement might lead to increased feelings of accountability in engagement partners and increased transparency for investors. However, we feel that potential negative ramifications for auditor independence have not yet been fully explored.

Specifically, we contend that partner disclosure may lead to an unintended transfer of potentially biased information from one reporting entity to other reporting entities. In other words, we expect, and find in our testing, that negative information disclosed related to one audit engagement will bias investor perceptions related to other engagements that are conducted with the same audit partner in the lead role. We contend that this information transfer will alter audit partner's incentives as they seek to minimize reputational costs. We further contend that this, in turn, may align partner incentives more closely with those of management, thereby potentially impairing auditor independence.

As evidence, we have performed an experiment to substantiate the potential for accounting information transfer (i.e., the first link of our model). The purpose of our paper (which we expect to make publicly available on ssrn.com this week) and this comment letter is not meant to be overly critical of the proposed standard. That is, it may be that the potential for increased accountability and/or transparency outweigh any costs related to the potential for impaired independence. However, we feel that the potential for independence impairment has not been adequately examined or addressed in the debate over this proposal thus far. We hope that you will consider our arguments, which are more fully developed in our paper. However, we recognize and caution that the paper we will be posting is a very early draft that has not yet been subject to the peer review process. As alluded to earlier, we are currently putting the finishing touches on this draft so that we can begin seeking criticism from our peers and colleagues this week.

Thank you for your time and all of your work aimed at improving the audit and financial information environment.

Sincerely,

Tamara A. Lambert, Ph.D.
Benjamin L. Luippold, Ph.D.
Chad M. Stefaniak, CPA, Ph.D.

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January 9, 2012

To: Office of the Secretary PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 29
Improving the Transparency of Audits

Mayer Hoffman McCann P.C. (MHM) appreciates the opportunity to provide the Public Company Oversight Board (PCAOB or Board) our thoughts on the referenced docket matter.

Disclosure of the Engagement Partner

MHM does not believe disclosure of the engagement partner's name in the independent registered public accounting firm's report would enhance audit quality nor provide any additional investor protection. We believe that engagement partners are acutely aware of the responsibility undertaken in signing the audit report as a representative of the firm.

Engagement partners are constantly reminded of the significant risk borne by both the firm for which they are a partner as well as individually. The accounting profession in the United States is committed to maintain its place as a significant contributor to the effective functioning of the capital markets we serve. We believe the constant focus on audit quality, as monitored by the profession itself as well as the standards and oversight of the PCAOB, provides a significant focus and incentive for each partner to uphold high standards of audit quality. We do not believe the addition of the name of the individual responsible for signing the auditors' report will meaningfully increase each individual partner's sense of responsibility to the profession and capital markets or to the overall quality of the audit process. The Sarbanes Oxley Act was the result of high profile audit failures, which led to the demise of one of the largest international accounting and audit firms and impacted all members of the public accounting profession. These events, coupled with the creation of the PCAOB, have changed the accounting profession and instilled audit quality as a central focus for accounting firms. Engagement partners understand the need to perform the highest quality work possible to protect both their firm and individual reputations.

We understand signing by the individual partner is a common practice in Europe, however, as noted above, MHM does not believe this practice would be effective in the US. Additionally, we believe the inclusion of the individual partner's name will potentially create unnecessary and unwarranted results in the US marketplace due to the different legal structure and practices that have evolved in the US. The Board should carefully consider the potential ramifications that exist in today's current environment including potential damage or harm which could befall engagement partners with the use of social media combined with aggressive activism. As is the case with any professional involved in an unfavorable situation, the media and social activism can, and often do, misconstrue the facts and circumstances to achieve a desired result. This is often the result of a misunderstanding of the roles and responsibilities of the professional. Many times the main stream media do not understand the difference between a business failure and an audit failure. Large accounting firms are forced to spend millions of dollars responding to these situations, many of which are without merit. It would be unfair to potentially shift this responsibility to defend oneself to the individual partner particularly as several individual members of the audit firm are typically involved in the audit and consulted on significant decisions and judgments, which is a process we would not want to be hindered by this proposal. In light of the US marketplace, we are particularly concerned with the potential impact this proposal could have on the reputation of individual partners in matters in which the partner and firm are unjustly accused of wrongdoing. This could have potentially catastrophic results for that individual, particularly in firms without the resources to respond or vigorously defend the individual.

In addition, audit firms are engaged to perform audits of entities whose business models include activities which may be objectionable to certain segments of our society. Activism efforts have targeted the key personnel employed by these entities and their families. We have concerns that a requirement to disclose the engagement partner could subject the engagement partner assigned by the audit firm and his or her family to unwarranted activism efforts.

As noted above, we believe these risks are introduced without any measurable improvement in overall audit quality.

The proposal's requirement that the engagement partner sign the audit report does not recognize that the engagement partner signs the report only as an agent for the firm. This is important since many critical decisions regarding the audit are determined only through consultation with the firms' technical experts and in compliance with the firm's system of quality control. The decision to sign the audit report is a firm decision rather than that of the engagement partner.

We also note that the Board and other regulators issue inspection reports only under the name of the body that conducts the inspection. It is evidently not considered beneficial or a particular improvement in the quality of the inspection to also disclose the name of the team captain in issuing the report.

Proposed Amendment to Form 2

MHM does not support the Board's proposal to list the engagement partner in Form 2. Our objection is based on the belief that while the engagement partner is an integral part of the audit process, responsibility for audit quality transcends the engagement partner, and is dependent on the entire structure of the engagement team and the organization. We believe this is evident by the substantial investment that firms make in human resources, recruiting, training and quality improvement efforts. MHM does not believe that the investing public would benefit from this information since the investing public's main driver of confidence in the audit process is the reputation of the Firm itself and not the individual partners. The investing public's belief is that consistent audit quality is achieved regardless of the individual partner. This is reinforced through the marketplace, where firms reinforce their national resources and often mandate the use of their respective national offices in matters of high risk or significant judgment.

Disclosure of Other Participants in the Audit and Referred to Accounting Firms

The proposed rule would require that each individual who performs attest work but is not employed directly by the audit firm be disclosed. Currently in the US, there are a number of alternative practice structure firms that have been participating in the PCAOB's inspection process since its inception. In alternative practice structures, an employee sharing or employee leasing agreement often exists between the CPA Firm and a secondary party. In these situations, the quality control policies and procedures of the CPA Firm govern the activities of the shared or leased personnel, including a view of the CPA Firm and the secondary party as one entity in evaluating the CPA Firm's independence. This proposal could result in unintended consequences as these alternate practice firms that have been strong supporters of the PCAOB's audit quality initiatives and inspection processes, could be viewed negatively if a large number of individuals on audit engagement teams are disclosed as non-employees of the audit firm. MHM does not believe the Board has contemplated this unintended consequence, particularly in light of the fact that the Securities and Exchange Commission considers the audit firm and the entity that employs the engagement team members to be a single entity when considering independence issues. MHM believes the proposed rule would have a significant negative impact on alternative practice firms and their ability to compete with traditional firms and therefore lead to further restriction of auditor choice in the attest market.

MHM understands that the proposal would require disclosure of the names of all separate legal entities participating in an audit that may be closely associated and publicly described as a single international firm. We understand that this would consistently apply to all national and international networks of firms. If that is correct both for when the audit firm is assuming responsibility and dividing responsibility for the work performed, we support that proposal. However, we do not support the proposed exemption from disclosure for the practice defined as "off-shoring" in the proposal. We particularly believe that disclosure of the fact that a firm is reducing audit cost by engaging individuals in foreign countries who are not US licensed CPAs would be much more relevant to investors than the fact that a US firm may practice under an alternative structure and lease its US licensed CPAs from a separate entity.

MHM agrees that the disclosure of the Engagement Quality Reviewer (EQR) is not necessary, for many of the same reasons cited above. We believe this is true whether the individual is an employee of the firm or outside the firm. We believe that the requirements of Auditing Standard No. 7 clearly define their responsibilities and disclosure would not increase audit quality nor investor confidence. Again, MHM believes that disclosure is not necessary since the investing public places their confidence in the respective firm and not the individuals assigned to the engagement.

MHM does not support the disclosure of the Appendix K review. The appendix K review is a separate review outside of the core engagement team and EQR. This disclosure could lead to potential confusion of the responsibilities of the appendix K reviewer and potentially subject the reviewer to increased liability.

Details of the Disclosure Requirements

MHM does not believe that an explanatory paragraph in the auditors' report is the appropriate means to provide the suggested disclosure items. We believe that the best way to inform investors is not through disclosure of hours for "other participants" in the audit report but rather, to supplement the required attestation fee disclosure found in the proxy with the desired information.

Closing Remarks

MHM is grateful for the opportunity to provide our comments to the Board, and we believe that through the inspection process and the work of the Board audit quality has improved since the implementation of the Sarbanes Oxley Act. We have concerns that release 2011-07 will not measurably improve the quality of the audit and could further restrict auditor choice. However, we believe it will unnecessarily and significantly increase professional risk and possibly limit the future number of CPAs interested in a career serving as an engagement partner for public filers. Many of the ideas are borrowed from or have been fostered in other jurisdictions where there are not the regulatory or litigation environments faced by attestation firms in the United States.

We support the Board in their goal of improving investor confidence. We realize the tremendous responsibility that the public accounting profession plays in our capital markets. We believe that maintaining high investor confidence involves not only auditors but management and financial regulators.

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McGladrey

January 5, 2012

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 29

McGladrey & Pullen, LLP appreciates the opportunity to offer our comments on PCAOB Rulemaking Docket Matter No. 29, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*. Our comments are organized so as to respond to the amendments in the order proposed in PCAOB Release No. 2011-007.

The Proposed Audit Report Disclosure

Transparency

We believe disclosure of the engagement partner's name in the auditor's report would not enhance audit quality, auditor accountability, or investor protection. It is the audit committee who represents investors in the important role of appointing and overseeing the work of the auditor. To ensure that the audit committee chooses its independent auditor on an informed basis, the audit committee develops a list of criteria and expectations they believe the independent auditor should meet. These criteria include, among others, evaluating the partners who will be assigned to the client service team.

After an audit committee selects a registered public accounting firm, two-way communication becomes a natural part of an auditor's relationship with the audit committee. Audit committees receive regular partner-level attention during every phase of the audit. In addition, throughout the year, the engagement partner communicates with the audit committee during the performance of quarterly reviews of interim financial information. As a part of these communications, the audit committee generally asks probing questions of the independent auditors, which allows it the opportunity to continually assess the competency of the engagement partner.

If at any point members of the audit committee have concerns about the integrity, objectivity, independence, or competency of the engagement partner, they would address those concerns with the registered public accounting firm. If they were not satisfied with the firm's response, they would likely consider engaging another registered public accounting firm. These types of decisions are appropriately left with the audit committee and not with individual shareholders. To further enhance the relevance and effectiveness of the communications between the auditor and the audit committee, the PCAOB has re-proposed its auditing standard related to communications with the audit committee, which, when finalized, will place even greater emphasis on the importance of effective, two-way communication between the auditor and the audit committee.

We believe a company's audit committee is in a better position to evaluate information about the qualifications of an engagement partner and sufficiently represents investors' interests, making widespread disclosure of the engagement partner's identity unnecessary. Therefore, we do not believe that increased transparency about the identity of the engagement partner would enhance audit quality, auditor accountability, or investor protection.

The Engagement Partner's Sense of Accountability

We do not accept the argument that disclosing the name of the engagement partner in the auditor's report would increase the engagement partner's sense of accountability. We believe engagement partners already have reasons to feel highly accountable for their work. Under PCAOB standards, the engagement partner is responsible for the engagement and its performance. Engagement partners are accountable to audit committees, to investors, to their firm, to other partners within their firm, and to regulators.

Engagement partners realize that a lack of professional accountability can have dire consequences, not only for their firm, but also for them personally. Auditors are subject to state laws that generally require CPA firms be owned by individual CPAs. Therefore personal financial resources of partners are at stake with each auditor's report issued. Also, a state board of accountancy can suspend or revoke a license to practice if a complaint regarding the auditor's professional conduct is received and found to be valid. Further, engagement partners may be held liable in PCAOB and SEC enforcement actions without regard to whether their name is disclosed in the audit report or whether they sign the audit report. The consequences to an engagement partner of failing to exercise due care in the performance of an audit are significant, and they would be no more or less significant if the engagement partner's name were disclosed in the audit report.

We also believe that requiring the disclosure of the engagement partner's name in the auditor's report could result in users reaching inappropriate conclusions about the engagement partner, or the quality of the audit without appropriate consideration of other relevant factors. For example, certain circumstances about a company are not within the control of the engagement partner and may not directly relate to the performance of that engagement partner or the quality of the audit (*e.g.*, bankruptcy, going concern uncertainty, adverse analyst coverage, certain material weaknesses in internal control over financial reporting, or restatements to the financial statements, *etc*.). The creation and use of "engagement partner scorecards" by investors and other stakeholders based on such factors outside of the control of the engagement partner would inevitably develop but be misguided in attempts to evaluate the performance of engagement partners.

The Appropriate Balance between the Engagement Partner's Role in the Audit and the Firm's Responsibility for the Audit

We do not support disclosure of the engagement partner's name in the auditor's report because, among other reasons, the report is issued upon the authority of the firm and not the authority of the individual engagement partner. The PCAOB's own standards prohibit the engagement partner from issuing the firm's report until he or she has obtained concurring approval of issuance from the engagement quality reviewer assigned by the firm. While it is true that a firm could not issue an audit report that is inconsistent with the views of the engagement partner, the engagement partner also could not issue an audit report that is inconsistent with the views of the engagement quality reviewer or certain other firm consultants.

Disclosure of the engagement partner's name in the auditor's report may lead to a misconception by investors about who is responsible for the audit and the issuance of the auditor's report. Quality audits are accomplished through the use of all of the resources of a firm. The engagement partner is not expected to fulfill his or her responsibilities alone. Rather, the engagement partner may and does seek assistance from appropriate engagement team members. In multi-location and complex audits, the lead engagement partner often relies on the work of other partners, such as those in other locations or those with a certain professional specialty, such as tax partners. Therefore, in addition to the engagement quality reviewer and firm consultants, there can be other partners supporting the firm's audit, and the lead engagement partner justifiably relies on them.

Other professionals, including other members of the engagement team and national office partners, play an important role in performing a quality audit and in the firm's quality control system. One element of a firm's quality control system is the establishment of policies and procedures designed to provide reasonable assurance that a firm has skilled professionals to perform engagements in accordance with professional standards and regulatory and legal requirements and to enable a firm to issue reports that are appropriate in the circumstances. Although the skill and expertise of the engagement partner undoubtedly contribute to audit quality, even an engagement partner who possesses high levels of competency, integrity, honesty, motivation, and aptitude for the profession cannot fulfill this element of quality control alone.

It takes the extensive resources of a firm to ensure that the capabilities and competence of its professionals are developed through professional education, continuing professional development, work experience, and mentoring by more experienced personnel. To maintain quality audits, it is critical that all quality control elements be addressed by the firm. Many of these elements cannot be addressed by and are not the sole responsibility of the engagement partner, such as establishing policies and procedures designed to provide reasonable assurance that personnel comply with independence, integrity, objectivity, and other relevant ethical requirements. In addition, some elements of quality control, such as the acceptance and continuance of engagements, require the approval of professionals outside of the engagement team.

Thus, we do not believe disclosure of the engagement partner's name in the auditor's report would reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit as it is not the engagement partner alone who issues an auditor's report, but rather the firm, which represents the collective efforts of many seasoned professionals. Our firm carefully selects all members of the engagement team including, but not limited to, the engagement partner. We therefore have concerns about minimizing the role of the firm or suggesting that the engagement partner is solely responsible for the audit engagement.

Increase in Private Liability of the Engagement Partner

We agree that a further assessment of the legal implications of this Proposal is important, and urge the Board to resolve this issue before moving forward. In its 2009 *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, the Board stated that its "intent with any signature requirement would not be to increase the liability of engagement partners." This was reiterated in the Proposal which states "the intent…was ….not to increase the liability of engagement partners." We have concerns regarding the uncertainty of liability implications of the Proposal, most importantly under Section 11 of the Securities Act of 1933 (Section 11). We also believe the Board should perform a liability assessment under Section 10(b) of the Securities Act of 1934 (Section 10), Section 11 and state law, including consideration of legal costs associated with the proposed benefits of additional transparency.

With respect to specific concerns regarding additional liability under Section 10 and Section 11, we refer you to the Center for Audit Quality's (CAQ) comment letter on this Docket Matter No. 29, specifically to Section I.b. of the CAQ's comment letter, "Requests for Perspectives on Liability."

We believe that legal implications under state law are also an important consideration. If the Board adopts the Proposal, a state court may reach the conclusion that a named engagement partner or participating firm in the audit report is liable under the state's blue sky laws. Additionally, unlike federal securities laws, a number of states' blue sky laws recognize causes of action by a holder of securities who claims to have relied on false statements. Plaintiffs also could seek to assert state common law claims against named engagement partners and participating firms. As a result, even without reference to ultimate liability, identification of the engagement partner and participating firms could increase the number of state law claims brought against partners and firms.

In summary, we have significant concerns that naming the engagement partner in the auditor's report possibly could increase the number of unwarranted claims brought against partners solely by providing that information to plaintiffs and plaintiffs' counsel. As a result, the Board's proposal runs the unintended risk of increasing litigation costs and disrupting client services provided by engagement partners and firms without enhancing audit quality (that is, an increase in the cost of providing audit services without a commensurate increase in audit quality).

Also, an increased risk of litigation could impact an engagement partner's behavior, such as by reducing his or her willingness to participate in audits of public companies. This effect may be more pronounced at firms that derive a larger percentage of revenue from private company audits (*i.e.*, some smaller firms) or smaller, regional offices of larger firms that have fewer partners available to serve on audits of public companies, which may impact their ability to compete for audits of public companies. Further, increased personal litigation against engagement partners could serve as a disincentive for college students to enter the public accounting profession.

The Proposed Amendment to Form 2 Regarding Disclosure of the Engagement Partner

For all of the reasons stated above, we do not believe disclosure of the name of the engagement partner on Form 2 (or filing a special report on Form 3 whenever there is a change in engagement partners) would be meaningful to investors, nor would it enhance audit quality. Also, the proposed requirement to file a special report on Form 3 whenever there is a change in engagement partners may present practical implementation challenges as there could be many different reasons for a change in the engagement partner, including private health-related issues, none of which may be related to audit quality.

Disclosure of Other Participants in the Audit and Referred-to Accounting Firms

We believe it could be beneficial to require additional relevant and useful clarifying language in the audit report related to the principal auditor's responsibility and other audit participant's responsibility for the audit engagement. The Board should consider, however, the potential reaction from other firms participating in the audit regarding the proposed requirement to be named in the auditor's report. Other firms participating in the audit, including network firms, might be reluctant to participate in audits of issuers due to concerns over additional liability resulting from being named in the auditor's report. This type of reaction may carry the unintended consequence of the principal auditor (especially non-Big 4 firms) needing to use other firms from outside of its network to conduct audit work thereby potentially adversely impacting audit quality as the advantages of using global methodologies, policies and procedures would be eroded. The Board should consider whether transparency with regard to other firms used in the audit could adequately be addressed by indicating on a no-name basis other audit firms used, some metric indicating the extent of substantial participation of each firm, and whether the other firm is subject to inspection by the PCAOB.

With respect to metrics that might be used to indicate the extent of participation of each firm, we believe a threshold above three percent (*e.g.*, 10 or 20 percent) would be more consistent with the Board's intent to provide to investors the most meaningful information about participants in the audit. This is consistent with views expressed by investor and preparer representatives during the November 2011 PCAOB SAG discussion on this Proposal. A higher threshold is also consistent with existing U.S. Generally Accepted Accounting Principles as well as SEC regulations intended to guide meaningful disclosure to investors regarding relevant financial reporting matters, and PCAOB rules which set a threshold for the level of audit work deemed significant enough to require PCAOB registration and inspection. For example, PCAOB rules require registration of any firm that plays a "substantial role" in the preparation or furnishing of an audit report with respect to any issuer. "Substantial role" is defined as any firm that: 1) performs material services (*i.e.*, services for which the engagement hours or fees constitute 20 percent or more of the total engagement hours or fees) that an accounting firm uses or relies on in issuing all or part of its audit report with respect to any issuer, or 2) performs the majority of the audit procedures with respect to a subsidiary or component of any issuer the assets or revenues of which constitute 20 percent or more of the consolidated assets or revenues of such issuer necessary for the principal accountant to issue an audit report on the issuer.

We agree that it would not be appropriate to require disclosure of the individual who performed the engagement quality review or the person who performed the Appendix K review. Also, we agree that it would not be appropriate to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor.

We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to Bob Dohrer, National Director of Assurance Services, at 919-645-6819.

Sincerely,

McGladrey & Pullen, LLP

McGladrey & Pullen, LLP

Dear Public Company Accounting Oversight Board:

I just read your Press Release announcing that on Tuesday you will be considering issuing for public comment standards that would bring greater transparency to the audit by disclosing the name of the engagement partner.

As an investor who has invested considerable amounts of money in China, and in the process helped to identify Chinese frauds traded on US exchanges, I support your initiative. However, I believe that engagement partners should not only be identified, but should also be required to sign the audit reports.

I believe that identification of the audit engagement partner - particularly with his or her signature - will decrease investors' future losses to fraud and gimmicky accounting by billions of dollars.

Even the most reputable auditors in China seem to be in a race to the bottom. We believe that there are particularly egregious situations in which some Big Four partners in China offices have actually conspired with their clients to defraud investors. Further, it is a reasonable proposition that the conflict of interest inherent in the Chinese auditors' business model also affects the quality of US company audits.

What we're seeing across many industries - including audit - is that institutional sanctions are far less effective than ones applied to individuals. Engagement partners will undoubtedly be more sensitive about risking their personal credibility than they are to risking the credibility of their employers. The more public an engagement partner's ownership of an audit is, the more he or she is incentivized to be diligent. It is my belief, which is hopefully not over optimistic, that by putting engagement partners' credibility on the line, we will provide them with the leverage to push back against institutional pressures to bill, and thereby ultimately put an end to this race to the bottom.

I look forward to following your initiative closely and applaud your efforts to provide greater transparency to investors.

Sincerely,

Carson Block

Chairman and CEO, Muddy Waters Research

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January 4, 2012

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Submitted via email to: comments@pcaobus.org

Re: PCAOB Release No. 2011-007—Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2

Rulemaking Docket Matter No. 29

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned release.

The NYSSCPA's Auditing Standards and SEC Practice Committees deliberated the release and prepared the attached comments. If you would like additional discussion with us, please contact Jan C. Herringer, Chair of the Auditing Standards Committee at (212) 885-8133, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

NYSSCPA

Richard E. Piluso
President

Attachment

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CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PCAOB RELEASE NO. 2011-007—IMPROVING THE TRANSPARENCY OF AUDITS: PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS AND FORM 2

RULEMAKING DOCKET MATTER NO. 29

January 4, 2012

Principal Drafters

From the Auditing Standards Committee –
J. Roger Donohue
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NYSSCPA 2011 – 2012 SEC Practice Committee

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Comments on

PCAOB Release No. 2011-007—Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2

We are pleased to respond to the Public Company Accounting Oversight Board's ("PCAOB") Release 2011-007—*Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (the "Release"). We understand that the PCAOB's objective in issuing this Release is to improve auditing standards and the quality of audits, and at the same time provide stakeholders with additional information to improve transparency. This release would:

- Require the audit report to disclose the name of the engagement partner responsible for the most recent period's audit,
- Require registered firms to disclose the name of the engagement partner for each audit report already required to be reported in their PCAOB annual report on Form 2, and
- Require disclosure in the audit report about other persons and independent public accounting firms that took part in the most recent period's audit.

Overall Comments:

We do not agree with the PCOAB's premise that audit quality will improve through disclosure of the name of the engagement partner or other participants on the audit. The Release implies that inclusion of the engagement partner's name will result in improved audit quality because of its visibility in the audit report. In addition, there is an unsupported implication that audits of financial statements by accounting firms that perform less than 100 percent of the audit procedures themselves are of a lesser quality than audits in which an accounting firm performs 100 percent of the audit procedures. Further, the Release would require disclosure of the other participants and their audit hours in relation to total audit hours. The typical financial statement reader is likely to reach the inappropriate conclusion, without any other available information, that as the number of other participants in the audit increase, the lower the quality of the audit.

Specific Comments:

Firm Structure and Other Matters

Our comments in this section are predicated on the overriding principles that a registered audit firm is engaged in its entirety as an "audit firm" as opposed to individuals (including the engagement partner) who will participate in the audit.

It is the firm that the audit committee engages that conducts the audit and it is the firm that develops the audit methodology, processes and procedures which are consistent with PCAOB auditing standards. Moreover, the firm:

- Trains its personnel so that a consistent approach is followed,
- Decides which partner will serve as the engagement partner,
- Assigns the engagement team, which may consist of many other partners, managers and staff,
- Establishes review procedures consistent with, and perhaps more expansive than, the PCAOB's engagement review requirements,
- Establishes consultation requirements and procedures for resolution of differences of opinions, and
- Assumes the risks associated with the engagement through client acceptance and retention.

The background and experience of the engagement partner is important, but it is the firm that is retained. The entire concept of the performance of an audit is predicated on an audit performed by a firm, not just the engagement partner, and the efforts of the entire engagement team (including, but not limited to, other partners and professional staff, engagement quality reviewers and various firm specialists) representing a cohesive unit performing audit procedures in accordance with the methodology established by the firm. This concept is critical to the completion of a sound audit.

The Release mentions that there are auditing standards and procedures that relate to the use of other participants in an audit, and that those standards and procedures are incorporated into the firm's quality control standards. This critical point would not be communicated to readers of the audit report as proposed, and the readers would have no concept of the firm policies in this circumstance that would include quality review procedures employed to ensure that the efforts of all participants in the audit, including associated firms and other persons, are properly planned, supervised and reviewed. As proposed, all the reader would see is the involvement of other participants in the audit and their effort in terms of audit hours only.

It is difficult to conceive how transparency is achieved when stakeholders have less than all of the facts, and are not aware of or provided with an understanding of the related required audit procedures that are being performed

Disclosing the Name of the Engagement Partner Responsible for the Most Recent Audit

Transparency, which the Release is attempting to address, implies that providing information will enlighten or provide information useful to making decisions. The PCAOB proposal states that the audit report "...tells the reader little about the key participants in the audit." The proposal would require the audit report to contain the name of the engagement partner "...who is at the center of the [audit] effort. He or she 'is responsible for the engagement and its performance,' and must, therefore, make sure that the work and those who perform it are appropriately supervised and coordinated." We agree with this statement of engagement partner responsibilities. However, we question the usefulness of providing the engagement partner's name in the audit report. It is unlikely that investors, analysts, creditors and other users of financial statements are familiar with the hundreds or perhaps thousands of engagement partners of public companies. Even if a few users recognize the name of a particular engagement partner, it is unclear how disclosing the name alone provides useful information about the individual capability of the engagement partner to supervise and coordinate a particular audit. The disclosure of the name will not provide information on the education, experience or the ability of the engagement partner to deal with specialized industry issues, complex accounting questions or unique control environment considerations of a particular audit client.

The Release states that, once in effect for at least five years, the additional transparency provided through disclosure of the engagement partner's name could also allow investors to consider whether the engagement partner was replaced sooner than required under the partner rotation requirements in the Sarbanes Oxley Act of 2002 and Securities and Exchange Commission ("SEC") rules. One would need to know the reasons for the change to have useful, transparent information. It could be that the previous engagement partner assumed other responsibilities within the firm, transferred to another office, retired or resigned from the partnership, or became ill.

Further, we believe that the inclusion of the engagement partner's name in the audit report understates the responsibility of the audit firm for the conduct of the audit. We refer to our comments above on the importance of the firm.

Audits of public companies are frequently complex undertakings involving numerous professional staff and partners from the audit firm and, in some instances, associated firms. The engagement partner is primarily responsible to his or her client and the firm for the conduct and management of the audit and the expression of the audit opinion. In this regard, the engagement partner plans and executes the audit to comply with the standards of the PCAOB. However, the engagement partner will do so utilizing the audit firm's audit methodology, including its own system of quality control. This enables all firm personnel to have a common understanding of how the engagement will be conducted.

The engagement partner remains primarily responsible for the supervision and review of the audit. Nevertheless, he or she may be assisted by other partners on audits of larger entities, including partners with specialized knowledge (e.g., taxation, information technology, or certain industries). The audit firm will have consultation standards with which the engagement partner must comply. This could include the engagement quality reviewer as well as others within the firm's quality control, industry, and regional and national office structures.

Large audit engagements may require large engagement teams to deal with specific business units, diverse locations (within the United States (U.S.) and internationally), specific subject matter expertise or specialized industry issues. While the role of the engagement partner is a key element, other members of the team also have significant roles in the engagement. For example, the partner overseeing the auditing procedures performed at a company's major subsidiary may have more hours and, arguably, a similar impact on the performance of the engagement compared to the impact of the engagement partner. Also, the role of the engagement quality reviewer has become more significant with respect to the achievement of the audit objectives. It is the combined efforts of the entire team that results in a well executed audit performed in compliance with PCAOB standards. The name of the engagement partner alone leaves the impression that this role, while key, is the only one that critically matters.

Disclosing the name of the engagement partner implies a different level of authority for conduct of the audit than is actually the case. There is a shared responsibility that a firm has entrusted to the engagement partner, the other partners and consultative resources used during an audit. It also does not take into consideration the fact that notwithstanding obligations to the public – a bedrock of the auditing profession – the firm's client are the shareholders represented by the issuer's board of directors, generally through the audit committee. As we will comment later, the audit committee has the ability to evaluate the competency of the audit firm's personnel to perform the audit.

The Release asserts that a sense of personal accountability may be increased resulting in exercising greater care. We disagree. Partners, as professionals, have embraced high ethical standards which require the highest level of due care, recognizing that the professional has a responsibility to the public, the client and the audit firm. As previously discussed, the audit firm has accepted responsibility to train, supervise and evaluate all of its professional personnel, including partners. The firm has established a quality control system that includes policies and procedures for client acceptance and continuance, assigning engagement personnel, engagement performance, monitoring and oversight, documentation, and other areas. Failure to carry out its responsibilities, evidenced, for example, by a deficient audit, subjects the audit firm to grave risks to its reputation and its capital that has contributed to the collapse of entire firms. Further, those partners responsible for the conduct of a particular audit have personal economic and professional risks beyond that of the capital base of the audit firm. We do not believe that the institution of a requirement to name the engagement partner would heighten a sense of accountability. Partners already are operating at the highest level of ethical and professional responsibility.

To our knowledge, there is no research or empirical evidence that directly or indirectly links the use of the audit partner's name in the audit report to an enhanced accountability or higher quality audit. Such linkage is supposition. We believe that litigation against the engagement partner would be encouraged by the proposed requirement, and that the courts could decide that specifically including the name of the engagement partner in the audit report and Form 2 extends the limits of civil liabilities. Furthermore, if this type of disclosure were to become a requirement, it could create the potential unintended consequence of subjecting the engagement partner to harassment or unwarranted and inappropriate attention by disgruntled stakeholders. We are concerned these potential risks would discourage highly qualified people from entering the profession and ultimately taking on the role of engagement partner.

The Release further states that identifying the engagement partner would increase transparency about who is responsible for performing the audit. As stated previously, we believe that it is the audit firm that is responsible for the audit. We recognize that it is the collective efforts of the engagement partner and the other partners and staff that assist in or consult on the audit which enables the firm to express its opinion on the financial statements, and the audit team is a cohesive unit of the firm's personnel. This is a shared responsibility in which the firm that has entrusted and delegated the responsibility to the engagement partner and the others participating on the audit. To require that the name of the engagement partner, ostensibly signifying individual responsibility, be set forth in the audit report and Form 2, would diminish the emphasis on the responsibility of the firm as a whole and would effectively create an incorrect perception that greater transparency will be achieved.

Also, the representatives of the shareholders (the board of directors through the audit committee) would have met with and be familiar with the qualifications of the engagement partner and other key members of the audit team. Typically, when a new engagement partner is introduced to an audit committee, the committee is presented with the qualifications of the engagement partner, including experience with audits of similarly complex entities and specialized industries. Similar information is typically provided for other key members of the audit team.

Therefore, we believe that audit committees already receive sufficient information about the engagement partner's qualifications, and they have the ability to interview the engagement partner to satisfy the committee's due diligence obligation. In addition, the audit committee, at a minimum, is in frequent communication with the responsible engagement partner due to the required communications before every filing of Forms 10-K and 10-Q and registration statements filed with the SEC. We believe emphasizing improved audit committee oversight and strongly encouraging audit committees to become more deeply engaged in the audit process would maximize audit quality and auditor accountability and address any actual or perceived shortcomings in the audits of public companies.

Further, there are several pitfalls likely to develop by disclosing the engagement partner's name. It is a well known practice of the investment banking industry to require a "Big Four" auditor in connection with various registration statements. This practice preceded the creation of the PCAOB by many years. Under the proposed rule, underwriters might eventually develop a sub-set of "approved engagement partners" or partners with specialized industry knowledge, despite the fact that industry expertise might be provided by other than the engagement partner, and in some engagements in some firms, by an individual below the level of partner. Rather than increase competition as the Release suggests, we believe the opposite may happen, and would hinder transparency.

Disclosure in the Audit Report about Other Persons and Independent Public Accounting Firms that Took Part in the Most Recent Period's Audit

The Release indicates that there is strong preference among stakeholders and other users to disclose the extent of work and location of other firms (and persons) for which the firm has accepted responsibility for their work pursuant to AU Section 543, *Part of Audit Performed by Other Independent Auditors*.

The issue of disclosing other independent public accounting firms and other persons not employed by the auditor is a complex one. We believe the key issue is the degree of responsibility assumed by the principal firm.

Networks of firms vary significantly in the degree of uniformity of audit procedures, training, etc. Further, internationally, questions arise as to the knowledge of foreign firm personnel in dealing with the auditing standards of the PCAOB, generally accepted auditing standards in the U.S., and with U.S. generally accepted accounting standards and SEC reporting standards and guidance.

The specific activities of the principal audit firm to oversee their affiliated firms would need to be defined to make disclosures in this area meaningful. Some international networks of legally independent firms apply uniform audit methodologies, processes and procedures across all firms. Reassignment of U.S. personnel to international locations, and vice versa, are frequently undertaken to provide cross-training opportunities.

We believe that this area needs further study to identify and distinguish the various forms of organizations that exist. The key should be the level of responsibility assumed by the principal firm, and the level of involvement of the engagement partner and others from the principal audit firm in overseeing the work performed on the principal firm's behalf by the affiliated firms.

Where an audit firm does not take responsibility for the work of other audit firms involved in the audit, the principal auditor makes reference to the other firm or firms involved. The SEC requires a registrant to include in its public filings the audit opinion of the other auditors. The principal auditor's opinion discloses the level of assets and revenue audited by the other firm. These audit opinions are available to stakeholders for them to evaluate the level of responsibility they have taken for the audit.

If the issue is one of foreign sovereignty that curtails PCAOB's ability to inspect some foreign registered firms which may assist in the audit performed by a U.S.-based registered firm, we recommend that the PCAOB focus instead on providing guidance on the documentation that the principal auditor should be required to obtain from the affiliated firms and maintain in its working papers in the U.S.

A listing of all or some of the significant firms that participate in the audit on behalf of the principal audit firm provides information that may be of little use unless the users of the financial statements have some understanding of the degree of the responsibility assumed by the principal audit firm, the knowledge level of the affiliated firms, and the coordination and supervision exercised over the affiliated firms.

Evaluating the significance of work performed by other auditors involves much more than information on where they are located and the number of audit hours. The Release does not make this clear. There are numerous other factors that should be considered. Separate disclosure seems to imply that the audit firm (principal auditor) does not have complete responsibility for the entire audit. We feel it is imperative that the role of the principal auditor not be compromised. There are very specific requirements with which an audit firm must comply in order for that firm to be the principal auditor, and the average reader of the financial statements is unlikely to be aware of what they are or of their significance.

The use of other auditors, including their scope and procedures, is subject to the judgment and quality review oversight of the principal auditors in conjunction with that of the company's audit committee. If the audit firm either lacks the ability to supervise the other firms involved in the audit process or determines the other audit firms cannot comply with professional standards, then it is left to the company's board through its audit committee, to make the appropriate changes. As described in the previous section, having the audit committee deeply engaged in its oversight role is critical to the improvement of audit quality.

MEMORANDUM

To: PCAOB Docket 029: Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits

From: Lisa A. Calandriello
Office of the Chief Auditor

Date: June 5, 2012

Subject: Conference Call Meeting with Mayer Hoffman McCann, P.C. and CBIZ, Inc.

On June 4, 2013, staff from the Public Company Accounting Oversight Board ("PCAOB") participated in a conference call with representatives from Mayer Hoffman McCann, P.C. ("MHM") and CBIZ, Inc. ("CBIZ") in connection with the attached slides, submitted by MHM, regarding the proposed amendments regarding disclosure of other independent public accounting firms and other persons not employed by the auditor in the audit report (PCAOB Release No. 2011-007).

The individuals participating in the conference call were as follows:

- PCAOB staff - Martin F. Baumann, Chief Auditor, Jennifer Rand, Deputy Chief Auditor, Jake Lesser, Associate General Counsel, and Lisa A. Calandriello, Assistant Chief Auditor;

- MHM - Ernest F. Baugh Jr., National Director of Professional Standards, Mayer Hoffman McCann, P.C., William Hancock, Chairman and President, Mayer Hoffman McCann, P.C., William Mann, Esq., General Counsel, Mayer Hoffman McCann, P.C.; and

- CBIZ - Michael Gleespen, Esq., General Counsel.

MAYER HOFFMAN McCANN P.C.

Conference Call With

Public Company Accounting Oversight Board Staff

Regarding the Transparency Proposal

June 4, 2013

MHM Mayer Hoffman McCann P.C.
An Independent CPA Firm

our roots run deep

PARTICIPANTS

- Mayer Hoffman McCann P.C.
  - Ernest F. Baugh, Jr., National Director of Professional Standards
  - William Hancock, Chairman and President
  - William Mann, Esq., General Counsel
- CBIZ, Inc.
  - Michael Gleespen, Esq., General Counsel
- Staff of the Public Company Accounting Oversight Board

AGENDA

- MHM is grateful for the opportunity to provide our comments to the Staff of the PCAOB, and we believe that through the inspection process and the work of the Board, audit quality has improved since the implementation of the Sarbanes Oxley Act.
- History
  - October 11, 2011 – PCAOB Issues Proposed Rule Regarding Transparency
  - January 9, 2012 – MHM Issues Comment Letter Regarding Transparency Proposal
  - May 16, 2013 – Discussion during PCAOB Standing Advisory Group Meeting
  - June 4, 2013 – Conference Call

AGENDA (Continued)

- MHM requested this conference call to gain an understanding of the current status of the Transparency Proposal
  - MHM is the only remaining alternate practice structure (APS) that includes a public company (CBIZ) in the APS
  - MHM provided its views on the proposed standard in January 2012
- MHM is concerned about unintended consequences of the Transparency Proposal that could negatively impact audit quality
- MHM is seeking information to assist us in evaluating if and/or when we should consider changes to our organizational structure and/or practice focus

AGENDA (Continued)

- The proposed rule would require the following -

  "Disclosure when assuming responsibility or supervising – The auditor would be required to disclose the name, location, and extent of participation in the audit of (i) independent public accounting firms for whose audit the auditor assumed responsibility pursuant to AU sec. 543, Part of Audit Performed by Other Independent Auditors, and (ii) independent public accounting firms or **other persons not employed by the auditor** that performed audit procedures on the most recent period's audit and whose work the auditor was required to supervise pursuant to Auditing Standard No. 10, Supervision of the Audit Engagement (collectively, "other participants in the audit" for purposes of Section III of this release)…"

- Our discussion will be focused on the application of this proposed rule as it applies to an alternative practice structure (APS)
- We do not plan to discuss the identification of the engagement partner name

ALTERNATIVE PRACTICE STRUCTURE

MAYER HOFFMAN McCANN P.C.
&
CBIZ INC.

MAYER HOFFMAN McCANN P.C. (MHM)

- National firm providing attest services
- Roots date back to 1954; spun off tax and consulting services to CBIZ in 1998
- 283 shareholders in over 30 offices
- Licensed or permitted to practice in all 50 states
- Registered with the PCAOB
- Member of AICPA's Center for Audit Quality, Employee Benefit Plan Audit Quality Center, Governmental Audit Quality Center
- Registered with Canadian Public Accountability Board

MAYER HOFFMAN McCANN P.C.

- MHM is a Missouri Professional Corporation
  - It is a separate and distinct legal entity
  - CBIZ is not a shareholder of MHM and is not a licensed accounting firm
  - Shareholders are all licensed CPAs. There are no outside shareholders
- By-Laws provide for Board of Directors:
  - Not less than 3 nor more than 9
  - Each director must be a licensed CPA
  - Staggered terms of directors so each director has a term of three years before being subject to re-election
  - Annual Meeting of Shareholders required to elect directors

MHM SHAREHOLDERS

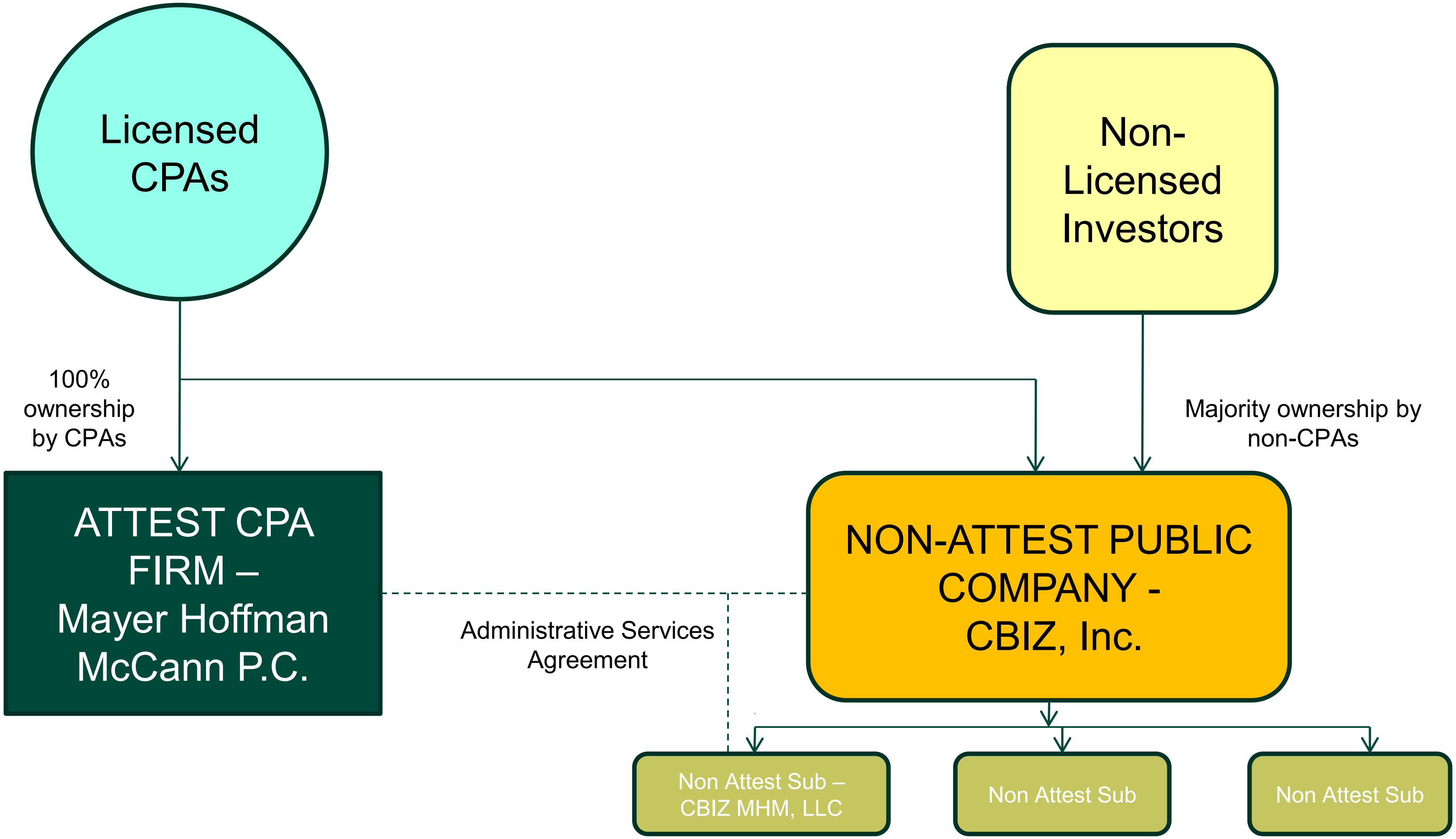
- Governed by a Stockholders Agreement
  - Shareholder must be a licensed CPA
  - Each Shareholder purchases 1,000 Shares
  - MHM has 283 Shareholders (as of April 30, 2013)
  - Upon termination of Shareholder for any reason, MHM has the right and obligation to repurchase the Shares
  - Each Shareholder agrees to a covenant not to solicit clients of MHM following termination, and agrees to liquidated damages in the event of a breach by the Shareholder

ALTERNATIVE PRACTICE STRUCTURE

- AICPA Ethics Interpretation 101-14 sets forth conditions for valid alternative practice structure:
  - Attest practice must be in separate and distinct legal entity
  - Attest practice must comply with state accounting laws and regulations
  - Non-attest entity (and the persons controlling the non-attest entity) cannot control the governance and policies of the attest entity

- MHM and CBIZ strictly adhere to principles of 101-14

ALTERNATIVE PRACTICE STRUCTURE



MHM & CBIZ ALTERNATIVE PRACTICE STRUCTURE

- Administrative Services Agreement
  - CBIZ entities to provide administrative services
  - CBIZ entities to provide personnel, including “licensed CPAs” to MHM to enable MHM to perform services for its clients
  - Clear statement that services rendered for MHM by CPAs, “shall be under the direction, control and supervision of one of the members of [MHM], and will be rendered in accordance with [MHM]’s Manual and other policies and procedures of [MHM] established from time to time.”

MHM & CBIZ ALTERNATIVE PRACTICE STRUCTURE

- Administrative Services Agreement (continued)
  - Clear statement that CBIZ will not provide any attest services
  - Clear statement that work required to be performed by a licensed CPA will be performed by MHM, not CBIZ
  - MHM and individual CPAs responsible for licensing
  - MHM responsible for costs of peer reviews and continuing professional education, professional memberships

GOVERNANCE OF MHM

- MHM governance structure satisfies requirements of 101-14 and state laws:
  - Each director is a licensed CPA and shareholder of MHM
  - 101-14 contemplates that substantially all owners of the attest firm will also be employees of the non-attest firm; therefore, the Board of MHM will include CBIZ employees
  - MHM Board is distinct from CBIZ Board
  - CBIZ employees on MHM Board are not directors, executive officers or senior management of CBIZ, Inc.

GOVERNANCE OF MHM

- MHM is independently managed:
  - President of MHM reports to MHM Board
  - The promotion to or removal of an MHM shareholder is the decision of MHM
  - ASA provides that CBIZ does not control the governance, structure or operations of MHM.

INDEPENDENCE PROCEDURES -- SEC CLIENTS

- MHM ‘s policies implement SEC standards for independence with respect to SEC Clients and broker-dealers

- MHM understands that the SEC views CBIZ and MHM as one entity for independence purposes

INDEPENDENCE PROCEDURES -- SEC CLIENTS

- SEC Restricted Entity list on intranet, available to all MHM and CBIZ employees
- Updated independence checks circulated to MHM personnel and CBIZ Financial Services personnel
  - Monthly--attest client (includes Restricted Entity) list sent
  - Annually --independence confirmation letters
  - For each potential SEC client
  - For each new office / acquisition
  - Includes description of potential sources of impairment (e.g., financial interest, non-attest service, contingent fee, director/officer, employment, joint investment)

MHM's PCAOB BACKGROUND INFORMATION

- PCAOB Annual Report on Form 2 for year ended June 30, 2012:
  - 6% of MHM fees attributable to issuer audit clients
  - 52 issuer audit clients
- PCAOB Inspection Report issued September 2011:
  - Report notes alternative practice structure with CBIZ
  - Report refers to employees leased from CBIZ
  - No deficiencies reported as a result of the alternative practice structure
- Most recent PCAOB inspection fieldwork completed in April 2013
  - No comment forms as a result of the alternative practice structure
  - 58 issuer audit clients

PROPOSED TRANSPARENCY RULES

DISCLOSURE OF OTHER PARTICIPANTS IN THE AUDIT

- We understand the proposed rule would require that each person who performs attest work but is not employed directly by the audit firm be disclosed.

- Currently in the US, there are a number of alternative practice structure firms that have been participating in the PCAOB's inspection process since its inception. In alternative practice structures, an employee sharing or employee leasing agreement often exists between the CPA Firm and a secondary party. In these situations, the quality control policies and procedures of the CPA Firm govern the activities of the shared or leased personnel, including a view of the CPA Firm and the secondary party as one entity in evaluating the CPA Firm's independence.

DISCLOSURE OF OTHER PARTICIPANTS IN THE AUDIT (Continued)

- We believe that this proposal could have unintended negative consequences for firms in alternative practice structures. The disclosure of a large number of individuals on audit engagement teams as non-employees could cast APS firms in a negative light, for financial statement users not familiar with alternative practice structures.

- We believe that the proposal as drafted could have a significant negative impact on the ability of alternative practice firms to compete with traditional firms and therefore lead to further restriction of auditor choice.

DISCLOSURE OF OTHER PARTICIPANTS IN THE AUDIT (Continued)

- Additionally, we note that the SEC disregards the alternative practice structure and looks at both the attest firm and the entity that employs the engagement team members to be one entity. The transparency proposal would cause alternative practice firms to be subject to inconsistent treatment: under SEC rules, APS firms are subject to restrictions because the SEC views both firms in the APS as one entity, and under the proposed transparency rule, APS firms would be required to make additional disclosures on the basis that they are not one entity.

- While we understand the rationale behind the transparency proposal, we believe that applying it to the alternative practice structure would have negative effects on the firms themselves and on the attest provider market generally and is unrelated to investors’ concerns regarding transparency, such as differences in audit quality between accounting firms, the involvement of multiple audit teams, etc.

PROPOSED EXEMPTION FOR "OFF-SHORING"

- MHM understands that the proposal would require disclosure of the names of all separate legal entities participating in an audit even if those entities are closely associated and described publicly as a single international firm.
- We understand that this would consistently apply to all national and international networks of firms. If that is correct both for when the audit firm is assuming responsibility and dividing responsibility for the work performed, we support that proposal.
- However, we do not support the proposed exemption from disclosure for the practice defined as "off-shoring" in the proposal. We particularly believe that disclosure of the fact that a firm is reducing costs by engaging individuals in foreign countries who are not US licensed CPAs would be much more relevant to investors than the fact that a US firm may practice under an alternative structure and lease its US licensed CPAs from a separate entity.

MHM REQUESTS

- MHM requests that the PCAOB consider the potential unintended consequences of the Transparency Proposal impacting alternative practice structure firms. Possible consequences include –
  - Further restriction of auditor choice
  - Greater concentration of public company audits in the Big Four
  - Auditor changes driven by disclosures of other participants in the audit, rather than an evaluation of audit quality

MHM REQUESTS (Continued)

- In the event the PCAOB decides to issue a Final Standard that incorporates the disclosure requirements for other persons not employed by auditor as proposed in the PCAOB Release No. 2011-007, MHM requests that an effective date be selected to allow those Registered Firms that have operated in an alternative practice structure to evaluate changes to their organizational structure and/or practice focus.
  - The fact that MHM operates in an alternative practice structure has been fully disclosed in all of MHM's PCAOB Inspection reports dating back to 2005
  - In addition, MHM's most recent PCAOB Inspection Report also discloses the fact that MHM leases personnel from CBIZ

CONCLUDING COMMENTS

Mayer Hoffman McCann P.C. supports the Board in its efforts to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports.

We sincerely appreciate the opportunity to provide our views in the interest of promoting audit quality.

June 2013

PBTK
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

November 30, 2011

To: Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W., Washington, D.C. 20006-2803
Transmitted by e-mail to: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 029
Release No. 2011-007, "Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits"

We appreciate the opportunity to respond to the proposed rule, "Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits" that is contained in Release No. 2011-006 dated August 16, 2011 (the Release), of the Public Company Accounting Oversight Board (the PCAOB or the Board). We note that many of our concerns that we believe warrant the Board's continuing serious consideration are already mentioned in the Release and in the commentary of others.

We previously commented in response to the related Concept Release No. 2009-005, Docket Matter No. 029, dated July 28, 2009 (the 2009 Release). However, we note that the scope of the Release is broader than the 2009 Release, and in that regard, it muddies what we view as two separate and unrelated issues. The first issue addresses disclosure of the name of the engagement partner (or partners) in the audit report and/or in periodic reports to the PCAOB. The second deals with disclosures regarding the participation of other audit firms in the audit (currently the subject of AU 543), which was barely mentioned in the 2009 Release. In our opinion, these two should be dealt with in separate proposed standards, and we have chosen only to comment on the first issue at this time.

In summary, we are firmly opposed to including engagement partners' names in audit reports based on our belief that doing so will afford no discernible benefit to investors, but we do not object to including them in periodic reports to the PCAOB.

We present details of, and support for, our overriding concerns and reservations in Part 1 of the attachment. In Part 2, we respond briefly to the 15 specific questions posed in the Release. To reduce the need for redundancies in this regard, our responses to the questions in Part 2 include cross-references to relevant numbered paragraphs in Part 1.

Thank you for this opportunity to comment. We hope the Board finds our comments useful as it continues its deliberations on this matter. Please contact the undersigned at hlevy@pbtk.com or 702/384-1120 if there are any questions about these comments.

Very truly yours,

Piercy Bowler Taylor & Kern, Certified Public Accountants

Howard B. Levy

Howard B. Levy, Sr. Principal and Director, Technical Services

Attachment

Part 1 — Overriding Concerns and Reservations

1. For reasons that we hope will become clear in the paragraphs that follow, we challenge the underlying premise implicit in the first paragraph of Part I of the Release that suggests that more information about "key participants" in the audit (*i.e.*, beyond that which is readily available outside an audit report about the firm taking responsibility by signing the report) would be useful to investors.[1] Accordingly, consistent with our earlier letter (no. 15) dated September 11, 2009, in response to the 2009 Release, we are firmly against any proposal for naming individual partners in audit reports as entirely unnecessary and without any discernible benefit to investors or other users.

2. We believe the best way to address our concerns about the Release is to address the reasons given by others and presented in Part 11A of the Release in support of the proposal regarding the naming of partners in reports that are effectively brought forward from the 2009 Release. The perceived benefits of naming partners presented to the Board by others are, in our opinion, virtually imaginary and speculative, unsupported by any reliable empirical evidence. They are, in our view, groundless opinions likely to be held only by those who do not understand the professional reality of the environment in which audits are conducted and who, based on observations relative to the highly insignificant minority of inevitable "bad apples" among us, fail to appreciate and, thus, unfairly underrate the typical level of professionalism, integrity and other ethical values that overwhelmingly dominates the auditing profession in the United States. Each of the following examples of unsupported, speculative claims that are cited in the Release[2] assert that a requirement for naming engagement partners in audit reports would be beneficial because it:

- *"might provide ...[users] the opportunity to evaluate, to a degree, an engagement partner's experience and track record"* (see paragraph 4, below),
- *"may increase that individual's sense of personal accountability for the work performed and the opinion expressed, which could, in turn, have a positive effect on his or her behavior,"*
- *"may increase an engagement partner's sense of responsibility for the quality of the audit,"*
- *"would increase transparency about who is responsible for performing the audit, which could provide useful information to investors and, in turn, provide an additional incentive to firms to improve the quality of all of their engagement partners,"*
- *"is likely to have a number of positive effects, including a change in partner behavior that would positively influence audit quality, and an increase in transparency for audit and financial statement users,"*
- *"would enhance accountability and transparency and, in turn, investor protection,"*
- *"will motivate audit firms to strengthen the quality, expertise, and oversight of their engagement partners,"* or
- *"should serve to lift his or her standard of professionalism."*

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1 The Release, p. 1.

2 *Ibid., pp. 6-7.*

Moreover, it is totally false to suggest (as it does on p. 6 of the Release) that audit committees would not otherwise have access to the names of engagement partners unless they are named in audit reports.

3. First, with rare exceptions, we believe that audit partners in the United States who sign off on audit reports for issuers fully understand the formidable risks and responsibilities undertaken by them in such activities. They function not only in the face of risks of damage to their professional reputation or more seriously, loss of employment and their rights to engage in professional practice, but of severe monetary loss and even possible imprisonment. In addition, the quality control policies and procedures in place in most audit firms, which in the United States undergo frequent scrutiny by regulators and *de facto* regulators, general allow for little or no significant, unbridled discretion on the part of individual engagement partners especially in SEC audit practice that is governed in large part by PCAOB AS 7. Accordingly. we believe that the rare individual whose attitude and behavior are not now sufficiently influenced by the applicable quality control, ethical and other professional standards, the regulatory oversight provided by the PCAOB's rigorous inspection program, and the other powerful constraints and deterrents that are already in place in the United States, would not likely be moved to alter his or her behavior as consequence of such an additional requirement as is now proposed. In other words, in our opinion, it would not be any more than remotely likely that a requirement to name engagement partners in audit reports would afford any significant incremental incentive for them to exercise greater care or to perform higher quality audits than is now generally the case, or for their firms to take any meaningful steps to improve the performance of all of their engagement partners as a group.

4. We believe the weak reasons offered by proponents for a naming requirement run directly counter to a statement that is attributed in the 2009 Release to the 2008 report of the Advisory Committee on the Auditing Profession (with which we concur) that such a requirement "should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm." Knowledge of this fact already affords the overwhelming majority of engagement partners with a sense of accountability and professionalism not likely to be significantly heightened by any requirement to be named in audit reports.

5. Among the thousands of audit engagement partners now signing their firm's names to audit reports, virtually none of their names are household words. On the contrary, such names are almost universally unknown and, therefore, mean nothing to investors. Moreover, even if such names were known to investors, it would be impossible for them to be able to assess the relative capabilities, integrity and other ethical values thereof, even with access to their brief professional biographical summaries that are used primarily for promotional purposes (generally, only their firm's management is in a position to make such evaluations) or the extent of discretion exercisable by the partner within the constraints of the quality control environment in which he or she functions. Accordingly, we believe it is not reasonable and without basis to suggest that public disclosure of their names could be "useful to investors" in any meaningful way. In fact, the only parties for whom such information could be useful are private litigants and regulators who can obtain such information, for example, in discovery proceedings, with little or no cost or trouble.

6. It is the audit firms that develop the partners and provide them with the cultural environments in which they grow and operate. Such development and cultures afford leadership, technical training, firm-specific audit methodologies, performance monitoring and evaluation and many other quality control policies and procedures, including the tone-at-the-top that nurtures their ethical values, all of which typically go way beyond the professional standards and regulatory requirements. And it is the firms that determine which partners should be assigned to which engagements. Under such circumstances, perhaps with the exception of the smallest firms that perform audits for only a handful of issuers, the degree of responsibility for audit performance to be reasonably ascribed to individual engagement partners is dwarfed in relation to that properly borne by the audit firms. We have traditionally defined materiality in terms of what would make a difference to users in making investment decisions. In our opinion, it would be almost universally irrational for any financial statement user

to allow disclosure of the name of the engagement partner to influence any investment decision. To name the engagement partners in audit reports might likely mislead investors by unduly elevating the perceived significance of such immaterial information and unduly minimize the audit firm's role.[3] Moreover, to name several partners would likely be confusing to users who, no matter how much additional language encumbered the report (and in our opinion, would likely make it more difficult for users to assess the relative importance on matters contained therein) would necessarily still be ill-equipped to assess the relative significance of each partner's contribution and responsibility.

7. As we previously stated in our letter dated September 11, 2009, in response to the 2009 Release, it appears that the proposal to name engagement partners in audit reports was likely motivated by an overzealous obsession with convergence for its own sake. We object to the "copycat" behavior that results from an irrational belief that if it is done in the international arena, we should do it here, too. Maybe such a requirement is meaningful in Europe, but we believe it would not be so here because of the legal, regulatory and other operational and effective disincentives in this country discussed above.

8. Despite our overriding belief that naming partners in audit reports is at best, of no value and at worst, misleading, to investors and other users, in the interests of transparency, we do not believe such information should be kept secret from those who seek it out. In fact, it has always been possible, with some effort, to obtain such information, but we would not be opposed to making it more readily available to the public by requiring its inclusion in periodic reports to the PCAOB such as Forms 2 and 3, as suggested in the Release as an additional or alternative requirement to including it in audit reports.

[3] On pp. 5 and 8 of the Release, the Board cites as its principal reason for not proposing an individual partner's signature (such as explored in the 2009 Release) its desire not to minimize the firm's role. We see the undesirable effect of naming partners as not significantly diminished from that of requiring a partner's signature.

Part 2 — Responses to Specific Questions Presented in the Release

Although we have expressed our most significant views in the foregoing comments (Part 1), our direct responses to the 15 specific questions presented in the Release (and below). To facilitate analysis and summary by the PCAOB staff of the comments received, in some cases, we have included parenthetical cross-references to our relevant comments in Part 1 and between overlapping questions wherever we believe they provide useful additional information as to the basis for our responses to these questions.

Q1. *Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?*

We do not believe that any reasonable proposal intended to improve transparency would likely afford investors sufficient information about any engagement partner (with the possible rare exception of one who has received negative publicity about a high profile audit failure) to enable them to make any meaningful judgments about the partner's capabilities, his or her integrity and other ethical values or the quality control environment in which he or she functions. (4, 5 and 6)

Q2. *Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?*

No and no. (2 and 3)

Q3. *Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?*

No and no. (6)

Q4. *Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?*

We believe it is a practical impossibility to adequately describe an engagement partner's level of responsibility in relation to that of the audit firm in any way that would be accurate, meaningful and useful to investors. (5 and 6)

Q5. *Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?*

We see dual-dating as relatively rare occurrence in view of the change in resent years in the way audit reports are dating. Moreover, in view of our position on the lack of utility in the proposed naming of partners in audit reports, we believe this question does not warrant the devotion of our energy (or the Board's) at this time.

Q6. *Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?*

We do not see ourselves as competent to address this this question.

Q7. *Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?*

We believe this is a question for lawyers, not accountants. Our layman's view, however, is that the individual engagement partner's litigation risk and ultimate liability would not be affected by including his or her name in an audit report. Accordingly, liability is not among the reasons for our concerns with this proposal. (4)

Q8. *What are the implications of the proposed disclosure rule for private liability under Section 10(b)?*

See our response to ***Q7***. (4)

Q9. *Would the disclosure of the engagement partner's identity affect Section 11 liability? If so, what should the Board's approach be?*

See our response to ***Q7***. (4)

Q10. *Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider?*

See our response to ***Q7***. (4)

Q11. *Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?*

See our response to ***Q7***. (4)

Q12. *If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?*

See our response to ***Q13***. (8)

Q13. *If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?*

Although we do not see any benefit to investors of disclosing the name of the engagement partner, we see no reason it should be kept secret or not readily available to those who want to know. Accordingly, we believe disclosure in Form 2 and/or Form 3 reports to be a practical alternative in compromise between those, like us, who believe the disclosure should not be made in audit reports and those who seek this information, and we do not object to such a compromise requirement. (8)

Q14. *Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?*

See our response to ***Q13***. (8)

Q15. *A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?*

See our response to ***Q13***. (8)

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

9 January 2012

RE: PCAOB Rulemaking Docket Matter No. 29, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*

Dear Sir:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") proposed rule, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* ("Proposing Release"). The Proposing Release would amend the Board's standards and rules to require (1) disclosure of the name of the engagement partner responsible for the audit in the body of the audit report itself and in the firm's annual report on Form 2, and (2) disclosure in each audit report about independent public accounting firms and other persons that perform 3 percent or more of the total hours (defined to exclude certain items) incurred in the audit ("Audit Participants"). We continue to support the Board's standard-setting objectives of enhancing the relevance, credibility and transparency of audits. We also believe the overarching principle of any standard-setting project should be to enhance audit quality. Further, we believe it is important that the benefits derived from any proposal outweigh the additional costs that are likely to be incurred by capital market participants.

In this spirit, we support the Board's goal of promoting transparency and providing users of financial statements with appropriate information to enable them to assess the qualifications and capabilities of the registered public accounting firm that attests to an issuer's financial statements. The Sarbanes-Oxley Act and PCAOB rules require firms to disclose in registration applications and periodic and special reports, which are filed with the Board and are publicly available, significant information about themselves, their associated persons and their audits. In addition, the Board's reports on its inspections of registered public accounting firms provide users with valuable information about matters identified by the Board that it considers relevant to the firm's performance in audits. The reporting and inspection processes focus principally on the audit firm, which is responsible for performing the audit in accordance with PCAOB standards.

Although we are supportive of the Board's objective, we are not convinced that these proposals will in fact provide meaningful information to investors and other users of audit reports and enhance audit quality. We also believe that concerns remain about the potential litigation impact on the persons identified in the report. Nonetheless, we recognize that many members of the investor community, including members of the Board's Investor Advisory Group, ascribe value to information regarding the identity of the engagement partner. Accordingly, in the interests of promoting transparency in audits, we support the identification of the engagement partner in Form 2. To alleviate any misimpressions that the audit report is a product of the engagement partner, rather than the firm, we also recommend that a member or members of firm leadership are also identified in Form 2. Examples could include the firm's audit/assurance leader and/or CEO/senior partner.

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However, if the Board continues to pursue the identification of the engagement partner in the audit report we suggest a naming requirement that includes the following elements:

- Provisional adoption of the requirement for a period of five years, to allow the Board to monitor the development of the law regarding possible personal liability for the engagement partner.
- Identification of a member or members of firm leadership in the audit report.
- Defer effectiveness until the SEC has taken action to assure that partners named in the audit report will not be considered experts and subject to expert liability under Sections 7 and 11 of the Securities Act.

These thoughts are further described below. If the Board pursues the identification of other Audit Participants we have also included alternatives to the proposed disclosures.

DISCLOSURE OF THE NAME OF THE ENGAGEMENT PARTNER

We continue to believe, as we did in 2009,[1] that there is little added benefit in naming the engagement partner in the audit report, in view of the substantial existing accountability mechanisms applicable to engagement partners that currently exist. That said, engagement partners' principal concerns about being named in an audit report stem from the possibility of increased personal exposure to private litigation and personal liability. As discussed below, we do not know how courts will apply the Supreme Court's recent *Janus* decision to engagement partners named in the audit report. However, if the Board elects to proceed with identification of the engagement partner in the audit report, our alternative to the Board proposal, which is described below, addresses the current legal uncertainty. It also may alleviate the concern that solely naming the engagement partner may unintentionally create misunderstanding about the respective roles of the firm and the engagement partner in the audit.

Impact of Naming the Engagement Partner on Accountability and Transparency

We remain skeptical that naming the engagement partner in the audit report will provide meaningful benefits to investors and other users of financial statements. In support of the proposal, the Board posits that naming the engagement partner "could increase the partner's sense of personal accountability."[2] Yet there already exist substantial accountability mechanisms, controls and incentives to ensure that the engagement partner — along with all other members of the engagement team and the firm as a whole — conduct the audit with the necessary due care and professional skepticism. Those mechanisms include: the existing requirements under PCAOB auditing and quality control standards, as well as the firm's internal quality control systems, impelling the engagement partner to exercise due professional care and otherwise act in accordance with professional standards; strong regulatory oversight by the PCAOB through its inspection and disciplinary processes, as well as Securities and Exchange Commission (SEC) enforcement powers; and other tangible and intangible factors that strongly motivate engagement partners to determine that audits are conducted with due professional care, including the partner's sense of personal responsibility to the firm and his or her partners and to investors, the partner's desire to

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[1] *See* Letter from PricewaterhouseCoopers LLP, PCAOB Rulemaking Docket No. 29 (Sept. 11, 2009).

[2] Proposing Release at 10.

maintain his or her personal reputation within the firm and the profession and the importance of audit quality to the partner's compensation.

The Proposing Release does not explain why these mechanisms are not sufficient to motivate engagement partners to strive to meet their professional responsibilities and achieve high-quality audits. The Board refers to results of its inspections showing there is still significant room for improvement in compliance with PCAOB standards, including those that require the auditor to perform the audit with due care and professional skepticism. But the Board does not explain how naming the engagement partner will address these concerns, other than speculating that "[d]isclosing the name of the engagement partner *may* be one means of promoting better performance."[3]

The Board also suggests that naming the engagement partner in the audit report will provide useful information to investors and incentivize firms to assign more experienced and capable partners to engagements. We believe the most relevant and useful information for investors in assessing the quality and reliability of an audit is the identity of the firm itself, not the name of the individual engagement partner who is unlikely to be known to the public. To the extent investors need information to assess the quality of the firm and its audits, investors have available to them the information contained in the firm's public filings with the PCAOB and the PCAOB's inspection reports. Many firms also make public their own quality control reports pursuant to NYSE rules. The rationale that investors will, over time, be able to assess the qualifications of individual engagement partners and thus be better equipped to evaluate the audit reports issued under a particular engagement partner's supervision highlights the degree to which the proposal unduly elevates the significance of engagement partners and downplays the importance of other critical aspects of the audit process.

The Proposing Release does not provide any evidence to support the suggestion that firms do not now assign experienced and capable engagement partners to engagements. Nor does it attempt to explain why firms currently have any incentive to do anything other than assign the most qualified personnel to audits. Even if there were evidence showing the existence of a systemic problem of inexperienced or unqualified engagement partners being assigned to engagements, it is unclear why naming the engagement partner would address that problem.

Finally, a naming requirement could have an unintended consequence of encouraging investors to make decisions based on an undefined, highly subjective engagement partner ranking or scaling system to be developed informally over time. Such partner ranking information would not be guided by uniform auditing standards subject to PCAOB input and oversight and could lead investors to evaluate differently two audits conducted by the same firm, even though both of them were performed in accordance with PCAOB standards.

Potential Liability For Engagement Partners Named In The Audit Report

While we believe the naming requirement would not significantly enhance audit accountability or transparency, engagement partners have a legitimate concern that being named in the audit report could expose them to incremental private civil litigation and personal liability. As the Board has consistently recognized, a signature or naming requirement should be imposed only if it would not "impose on [the engagement partner] any duties, obligations or liability that are greater than the duties, obligations and

[3] Proposing Release at 9.

liability imposed on such person as a member of an auditing firm."[4] At this point in time, there exists substantial uncertainty in the law about whether an engagement partner would be subject to expanded personal liability by virtue of being named in the audit report.

Securities Exchange Act Section 10(b) and Rule 10b-5

Private litigants in misstatement-based actions under Section 10(b) of the Securities Exchange Act and Rule 10b-5 can bring suit only against a person who makes an actionable misstatement or omission (a "primary" actor).[5] In its June 2011 *Janus* decision, the U.S. Supreme Court addressed who "makes" a statement for the purposes of Rule 10b-5.[6] The Court held that, for purposes of Rule 10b-5, "the maker of a statement is the person or entity with ultimate authority over the statement, including its content and whether and how to communicate it." The Court noted that "in the ordinary case, attribution within a statement or implicit from surrounding circumstances is strong evidence that a statement was made by—and only by—the party to whom it is attributed."

Janus arose in the context of a claim against a separate legal entity for statements explicitly attributed to another legal entity. The Court explained that there were no allegations that the defendant had in fact filed the prospectuses and nothing on the face of the prospectuses indicated that any statement came from the defendant. It noted that such attribution is "necessary," but not necessarily "sufficient," to find that a person or entity made a statement indirectly. It thus had no need to "define precisely what it means to communicate a 'made' statement indirectly because none of the statements in the prospectuses were attributed, explicitly or implicitly, to [the defendant]."[7] Given its context, there is also no discussion in *Janus* regarding how one should evaluate whether an individual within a single corporate entity had ultimate authority over a particular statement, including its content and whether and how to communicate it. Several post-*Janus* decisions have held that individual corporate officers can be subject to Rule 10b-5 liability because they may have exercised "ultimate authority" over the statements.[8]

Commentators have noted that unresolved issues remain after *Janus* about whether an individual can be deemed the maker of a statement that is issued by an entity. For example, one recent article summarizing post-*Janus* decisions discusses a pair of cases in the Southern District of New York[9] that showed "some elasticity in applying *Janus*," focusing "on language in Janus about 'surrounding circumstances' sufficient

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[4] Proposing Release at 14, fn. 28 (quoting the 2008 Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury).
[5] *See Central Bank of Denver, N.A. v. First Interstate Bank of Denver*, 511 U.S. 164, 180 (1994); *Stoneridge Investment Partners, LLC v. Scientific-Atlanta, Inc.*, 552 U.S. 148 (2008).
[6] *Janus Capital Group, Inc. v. First Derivative Traders*, 131 S. Ct. 2296, 2302 (June 13, 2011).
[7] *Id.* at 2305 n.11.
[8] *See, e.g., SEC v. Carter*, 2011 WL 5980966 (N.D. # Ill. Nov. 28, 2011); SEC *v. Das and Dean*, 2011 WL 4375787, *1 (D. Neb. Sep. 20, 2011); *In re Merck & Co., Inc. Securities, Derivative, & "ERISA" Litigation*, 2011 WL 3444199 (D.N.J. Aug. 8, 2011); *SEC v. Daifotis*, 2011 WL 3295139 (N.D. Cal. Aug. 1, 2011).
[9] *City of Roseville Employees' Ret. Sys. v. Energy Solutions, Inc.*, 2011 U.S. Dist. LEXIS 113630 *54 (S.D.N.Y. Sept. 30, 2011) (plaintiffs' allegations that a sole shareholder had "direct control over all corporate transactions" and "authority to determine when and whether to sell the shares being sold" was sufficient to state a 10b-5 claim for primary liability; explicit attribution to the issuer of the relevant registration statements did not "preclude attribution to [the shareholder] as well"); *SEC v. Landberg*, 2011 WL 5116512, *4 (S.D.N.Y. Oct. 26, 2011) (statements could be implicitly attributed to corporate office; "the SEC allege[d] adequate surrounding circumstances for a reasonable fact finder to conclude that the statements alleged to be fraudulent were implicitly attributed to [the CFO defendant], which is 'strong evidence' that [he] was the 'maker' of those statements, thereby satisfying Janus.").

for implicit attribution to hold defendants potentially liable."[10] The authors concluded, "Courts' willingness to implicitly attribute misstatements to defendants based upon surrounding circumstances means that room still exists for plaintiffs to seek to hold liable additional parties beyond the most obvious statement 'makers.'"

Given the unsettled nature of the post-*Janus* case law and the "elasticity" shown by some courts in interpreting *Janus*, it is easy to imagine that identifying the engagement partner in the audit report would be cited by plaintiffs as a "surrounding circumstance" indicating, in their view, that the engagement partner is a "maker" of the statements in the report. One can easily envision complaints that allege that (1) naming the engagement partner as "responsible for the audit resulting in this report" implicitly, if not explicitly, attributes the statements in the report to the engagement partner and (2) the engagement partner has "ultimate authority" over the audit report, in light of the engagement partner's central role in the planning, oversight and execution of the audit. While we believe that such arguments ultimately will not prevail, the very fact of being named individually in a complaint can have serious reputational and other collateral consequences for engagement partners.

Naming the engagement partner in the audit report also increases the potential that the partner could be individually named in state causes of action. While we believe that in the long run such claims are unlikely to prevail as a matter of law, it may be some time before that question is resolved in the courts.

Securities Act Section 11

It also is uncertain whether including the name of the engagement partner in the audit report could expose the engagement partner to claims in his personal capacity under Sections 7 and 11 of the Securities Act of 1933. Those sections provide for "expert" liability for certain persons, including accountants, "whose profession gives authority to a statement made by him." Section 7(a) provides, in pertinent part, that "[i]f any accountant . . . is named as having . . . certified any part of the registration statement," he must consent to his being so named and the consent must be filed with the registration statement. Under Section 11(a)(4), any person who so consents may be held liable, subject to certain defenses, "with respect to the statement in such registration statement, . . . which purports to have been . . . certified by him."

While there appear to be no published decisions on point, it could be asserted that if the Board's proposal were adopted, the engagement partner would be an expert within the literal language of Sections 7 and 11. Accountants are expressly covered by those sections. The engagement partner would, by definition, be "named" in the audit report. Plaintiffs could argue that an engagement partner who was "named" in the audit report had "certified" the financial statements included in a registration statement.

Proposed Alternative

As mentioned above, we are supportive of the identification of the engagement partner and a member or members of firm leadership in Form 2. These disclosures would be responsive to the requests of investors but also make clear that the engagement partner alone is not responsible for the issuance of the report.

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[10] John R. Baraniak Jr. and Michael T. Gass, "Surprising Interpretations Of Janus Bright Line," Law360, http://www.law360.com/securities/articles/287323/surprising-interpretations-of-janus-bright-line (November 21, 2011, 1:07 PM ET).

If the Board nevertheless believes it is appropriate to adopt a requirement that engagement partners also be named in the audit report, we suggest the Board consider a naming requirement that includes the following elements:

- *Provisional Requirement*. The requirement to name the engagement partner in the audit report would be "provisional" — it would be in effect for a limited period of five years. This would provide time for the law to develop under *Janus* and/or relevant state law. If, after five years, there are binding appellate precedents establishing that an engagement partner named in an audit report is not a "maker" of the statements in the report, and that naming the engagement partner has not expanded a partner's liability under state law, then the Board could decide to make the naming requirement permanent.

- *Naming Member or Members of Firm Leadership*. In addition to naming the engagement partner responsible for the audit, a member or members of firm leadership should also be named in the audit report. Examples could include the firm's audit/assurance leader and/or CEO/senior partner. Including the name and/or names of firm leadership will convey to the users of the financial statements that the accounting firm as a whole takes responsibility for the audit and alleviate any misimpressions that the audit report is the product of the engagement partner rather than the firm.

- *SEC Effectiveness*. The Board should defer effectiveness of the naming requirement until the SEC has taken action to assure that partners named in the audit report will not be considered experts and subject to expert liability under sections 7 and 11 of the Securities Act. The SEC could do this by an amendment of Rule 436 or by providing guidance that it will not condition effectiveness of a registration statement on the named partners being expertised.

As it relates to Form 3, we believe it is unnecessary to require that changes in engagement partners be disclosed. Changes in engagement partners can occur for a number of reasons and do not themselves raise questions about the ability of the firm to perform the audit effectively.

DISCLOSURE IN AUDIT REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRMS AND OTHER PERSONS THAT PARTICIPATED IN THE AUDIT

The Board also proposes to amend its interim auditing standards to require disclosure about Audit Participants who perform 3 percent or more of the total hours incurred in the audit (defined to exclude certain items and where the principal auditor is assuming responsibility or supervising the work of the Audit Participants). We think that disclosing the identity of Audit Participants in the audit report is unlikely to provide meaningful information to investors and would muddy the clear accountability of the principal auditor for the audit. We believe that this proposal also raises additional litigation concerns. If the Board nonetheless determines that disclosure about Audit Participants is appropriate, we suggest alternative approaches that we believe can achieve the Board's objectives without burdening the audit report with a large number of entities whose contributions to the audit may be relatively immaterial. We also believe the Board should make clear that off-shoring activities are not covered by the disclosure requirement.

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Responsibility of the Principal Auditor

The proposal would require that the audit report include information about other audit firms that audited one or more subsidiaries, divisions, branches, components or investments included in the financial statements (a "component"). Under current standards, the principal auditor may elect to assume responsibility for the work of the other auditor insofar as that work relates to the principal auditor's expression of an opinion taken as a whole. [11] In order to assume responsibility for the other auditor's work, the principal auditor is required to satisfy itself as to the independence and professional reputation of the other auditor and take specified steps to satisfy itself that it can express an opinion on the financial statements taken as a whole without making reference in the audit report of the other auditor. Auditors that rely on other accounting firms to perform work with respect to components of an issuer establish procedures and quality controls to provide assurances about the component audit. In that event, the standard specifically provides that the principal auditor "should not state in [its] report that part of the audit was made by another auditor because to do so may cause a reader to misinterpret the degree of responsibility being assumed."[12]

We believe that the current standard is preferable to the proposed changes. The current standard reflects that the audit report is issued by one audit firm that takes responsibility for the entire audit and that expresses an opinion about the financial statements taken as a whole. The existing standard places on the principal auditor the responsibility to determine whether and to what extent it may use the work of other auditors and to make the determination that the other auditor's work can be relied upon for purposes of the audit report. The issuance of one audit report by a single auditor sends a straightforward message to investors and other users that the issuing firm is responsible for and accountable for the audit report.

To add a potentially lengthy list of other named firms to the audit report will muddy the clear accountability created under the current standard. It could create a misimpression that the opinion is not solely that of the firm issuing the audit report. In other words, it will create the exact risk of misinterpretation identified in the current standard.[13]

Litigation Considerations

Audit Participants have a genuine, and understandable, concern about the potential liability implications under the U.S. private litigation regime if they are identified in audit reports which they themselves did not prepare. Many Audit Participants, particularly those that are not themselves registered with the PCAOB, do not currently face any material risk of liability in U.S. private securities litigation, because they are not identified in any public document and the principal auditor takes responsibility for their work.

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[11] PCAOB AU 543, *Part of Audit Performed by Other Independent Auditors*. We have no issue with the proposal as it applies to audits where the principal auditor divides responsibility with another audit firm and refers to that firm's work in its audit report.

[12] AU 543.04.

[13] We believe the Board's proposed qualifying language in AU 508 do not eliminate these concerns. For example, when another firm audited a company's subsidiary under the proposal, the audit report would state that the firm issuing the report is responsible for the audit performed by the other firm "insofar as it relates to our expression of an opinion on the financial statements taken as a whole," and that the issuing firm has "performed procedures to assume responsibility for their work in accordance with PCAOB standards." (Proposing Release at C-5). We respectfully suggest that while these terms reflect the applicable auditing standards, their meaning and significance may not be clear to investors. The risk of misinterpretation will remain.

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As a result of being publicly identified in an audit report, however, firms that support an audit by another firm could become embroiled in U.S. private securities litigation. It is foreseeable that plaintiffs will seek to name these firms as parties in litigation based on a faulty audit report.[14] While we believe that the courts will ultimately reject Rule 10b-5 claims against Audit Participants, in the meantime, plaintiffs may nonetheless see a tactical advantage in naming them as defendants. In that event, Audit Participants named as defendants will at a minimum have to engage counsel and will otherwise become subject to the costs and burdens of defending against the claim. Naming non-U.S. firms as defendants might also increase the plaintiffs' leverage in settlement negotiations.

Besides potential 10b-5 claims, it is also conceivable that Audit Participants might be treated as experts for purposes of Sections 7 and 11 of the Securities Act. As discussed above, an accountant can be subject to "expert" liability for his report if he is named as having . . . certified any part of the registration statement," and has consented to be named as an expert in the registration statement.[15] As with the engagement partner, it could be asserted that an audit firm identified in the audit report was "named" as having "certified" the audit report to the extent that the report relates to a component whose financial statements were incorporated into the financial statements that were the subject of the audit report. As with naming the engagement partner, this concern could be alleviated by SEC action. Therefore, we also recommend that the effective date of any standard requiring that Audit Participants be named be deferred until the SEC issues guidance or rules confirming that the Audit Participants are not experts.

Proposed Alternative

In the event the Board decides that additional information should be provided in the audit report about participants in the audit besides the principal auditor, we believe the Board should modify the proposal as follows:

- *Threshold for Disclosure*. The Board should adopt a higher percentage threshold for disclosure. We believe that the proposed threshold for disclosure — 3 percent or more of total audit hours (as defined in the proposal to exclude certain items) is much too low. It will likely sweep in a number of firms in smaller countries who audit smaller operations of the issuer and whose work is unlikely to be material to the financial statements or the audit taken as a whole. It could result in a long list, which is unlikely to provide helpful information to users. We believe the appropriate threshold should be one that identifies participants whose work can reasonably be deemed to have significance to the audit. In our view, an appropriate level would be 10 percent of total audit hours, rather than 3 percent. That will result in a shorter list of Audit Participants and enable users of the financial statements to focus on those firms that audited larger components of the issuer being reported on. Firms that individually account for less than 10 percent of total hours would be aggregated, as in the current proposal.

[14] *See Munoz v. China Expert Tech., Inc.*, 2011 U.S. Dist. LEXIS 128539, *5 (S.D.N.Y. Nov. 4, 2011) (genuine issue of fact exists as to whether affiliate US affiliate of Hong Kong accounting firm "explicitly or implicitly controlled sufficiently—and thus 'made'" the statements in the Hong Kong firm's audit report, by virtue, among other things of US firm's managing director giving final approval of the audit opinions prior to their being signed, and his being tasked with reviewing the entire filing for compliance).
[15] Securities Act, § 11(a)(4).

- *Disclosure in Ranges*. Rather than requiring disclosure of a specific percentage for each identified Audit Participant, provide that the disclosures be provided in tiers, e.g.:

  Firms providing 10%-15% of total hours incurred
  Firms providing 16%-20% of total hours incurred
  Firms providing more than 20% of total hours incurred

  This approach would simplify the process of developing and reporting the relevant information. It would help avoid the difficulty of determining precise percentages during "crunch time" immediately prior to conclusion of the audit. Providing information within bands will still give investors and other users of the audit report information about the relative degree of participation of significant Audit Participants in the audit.

- *Explanatory Language*. Any disclosure regarding Audit Participants should also include explanatory language to the effect that the Audit Participants are separate legal entities and, if they are members of the same network as the principal auditor, that the network firms follow a common audit methodology and consistent quality controls.

"Off-Shoring"

As the Board recognizes, certain portions of the audit are "performed by offices in a country different than the country where the firm is headquartered."[16] The Board indicates that the proposed amendments would not result in disclosure of such arrangements if the work is performed by "another office of the same accounting firm."[17] We agree with this approach. Where the registered firm is performing the work itself, just through a non-U.S. office, separate disclosure about the off-shoring does not provide any additional information for investors.

We believe that the exclusion for off-shoring may be too narrow. Some firms may, for legal reasons, carry on the off-shored activities through a wholly-or majority-owned subsidiary. Firms may also establish joint ventures with other firms in their networks, pursuant to which the venture provides personnel to network firms to perform certain audit-related tasks. These joint ventures are not engaged in the practice of public accounting. The personnel perform the audit-related tasks under the direction and control of the engagement team that is performing the audit. Because the personnel are acting, in effect, as part of the principal auditor engagement team, it is unnecessary to separately break out the entities that provide the personnel. We recommend that the Board clarify that the standard does not require disclosure of audit-related tasks performed by personnel supplied by subsidiaries of the registered firm or joint ventures, where the personnel perform audit-related tasks under the direction and control of the principal auditor.

CONCLUSION

As discussed above, we strongly support the general objective of providing useful information to investors and other users of audit reports. However, we have concerns whether the proposals will serve that objective or enhance audit quality. Nevertheless, to be responsive to the requests of investors, we are supportive of identifying the engagement partner in Form 2, but to alleviate concerns about who is

[16] Proposing Release at 18.
[17] Proposing Release at 24.

responsible for issuing the audit report we also believe member or members of firm leadership should also be disclosed. If the Board decides to pursue other aspects of the proposals, we request that it consider the proposed modifications and alternatives outlined above. These modifications will address some of our concerns while still providing additional information about the audit to investors.

* * * * *

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have.

Sincerely,

PricewaterhouseCoopers LLP

Robert Moritz

Tim Ryan

Bob Moritz
US Chairman and Senior Partner
PricewaterhouseCoopers LLP

Tim Ryan
Vice Chairman, US Assurance Leader
PricewaterhouseCoopers LLP

From: Vu, Quynhanh [mailto:VuQ3068@UHCL.edu]
Sent: Thursday, October 20, 2011 9:37 PM
To: Comments
Subject: Docket Matter #29

To promote more transparency and accountibility accounting firms should identify the partner in charge of the audits, not only should firms disclose the name of each other accounting firms and other people who assisted in the company's audit according to WSJ article by Michael Rapoport. Accounting firms should also disclose the segment and information within the financial statement that was audited by other accounting firms. Providing information on what was being audited by other firms will promote more transparency and accountibility.

From: Slrosenfieldcpa@aol.com [mailto:Slrosenfieldcpa@aol.com]
Sent: Tuesday, October 11, 2011 6:50 PM
To: Comments
Subject: Proposed naming of Partner in Audit Report

This, in my opinion, serves no useful purpose, for the following reasons:

1. The firm is the entity at risk & whos' name is of importance to users- not that of the individual partners. Users will know "Pricewaterhousecoopers". They won't know- or care about- Joe Jones, CPA.

2. Just because something is being done in other jurisdictions does not mean we need to follow.

3. This just adds wording at a time we should be looking to simplify & delete "mind-numbing boilerplate".

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From: c_russell@q.com [mailto:c_russell@q.com]
Sent: Wednesday, October 12, 2011 2:30 PM
To: Comments
Subject: Docket 029

Where vast amounts of money are affected by an audit, I strongly believe that the lead partner of an audit should sign the audit.

Adrienne Stankard

PCAOB Open Comment

Senior at Rutgers-Camden

I can only think of one situation where the signatures would add value to the final report: miscommunication. When communication is unclear pertaining to the terms of the audit engagement, expectations among parties may not coincide. The initial proposal delivered by the CPA is a mission statement essentially intended to further develop a professional business relationship. A contract by definition is an agreement between two or more parties for the doing or not doing of something specified. Disclosure of the engagement partner's name seems more appropriate in the engagement letter (where it usually appears). The specific location of the partner's name shouldn't alter the information to the client regarding who performed the audit.

Beginning stages of the audit are used for the partner and possible client to develop an understanding of each other. Topics for discussion would include: the scope, internal control, accounting procedures, audit team, related credentials, the responsibilities of both parties, along with standard Q&A. Let's not forget that these external auditors have considerations of their own to address: transparency of engagement risk, uncollectible debts, possibility of law suits, etc.

Unfavorable risk factors are the pressure points used by the firm to help weigh out decisions. In all fairness, professional skepticism is and shall remain a priority not only in the accounting industry but in all business dealings. One would appear to be unacquainted with reality to not place emphasis over the matter. Other obvious economic dispositions have proven that professional skepticism is something that must remain omnipresent within business as a whole. The burden which holds the state of the economy at ransom won't possibly be relieved by issuing a duplicate credit statement.

Investors need to be a little more self-reliant and confident in the people they trust with their money. Certainly the psychology behind the proposal makes sense on paper, but these assumptions are mitigating real ethical dilemmas. Forming relationships face to face is a much more sincere or earnest attempt to fulfill whatever commitment was made. When people go out of their way to be made known it builds a healthy partner-client foundation. Typically the audit partner is responsible for bringing new clients into the firm and by default is considered the face of the business. Maintaining their public image at both an independent and company level is crucial for competitive industries.

Requiring an audit partner to sign a finalized report seems redundant in theory and purely bureaucratic. The need for a signature is more likely to be justified through a significant change to the structure of the audit, hence a different partner. The audit team won't remain anonymous because they will be the ones conducting the fieldwork. The clients have opportunities throughout the engagement to meet and converse with the audit team. They also have the power to not accept an engagement unless they feel more comfortable with the information. Physically working in the same building/area and allowing for this type of interaction with the employees is a more sufficient way to gain credibility. The auditors have their clients to worry about, and those clients have their own responsibilities to fulfill in terms building trust.

Texas Society of
Certified Public Accountants

December 19, 2011

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters and the views expressed herein are written on behalf of the committee. The PSC has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the PSC's membership. The views expressed in this letter have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs.

In our discussion of the above referenced exposure draft (ED), we considered each of the 35 questions posed by the PCAOB. Our response to each question is indicated in the body of our letter. However, prior to sharing our answers to the questions, we have some general comments for the Board's consideration.

We believe this ED has many flaws in both the basis for its issuance and the guidance it proposes. The justification for this document seems to come from the views of the Council of Institutional Investors and inconclusive research provided by the academic community. The focus of the document seems to be on rectifying the inadequacies of those in charge of audit engagements by identifying them and publicizing the perception of their inappropriate performance. We believe this is a very poor basis for the development of an auditing standard!

We are certainly not so naïve as to believe that all audits are performed with the ultimate amount of competence on the part of every audit practitioner. However, this ED would lead a reader to believe that a majority of those audit partners in charge of audit engagements are incompetent, lazy, and/or unconcerned with their professional responsibilities.

We find this very hard to believe in light of the precautions that are currently in place in this profession to head off such inadequacies. We have established Codes of Professional Conduct for CPAs at both the national and state levels. We have peer review programs that are designed to identify the sub-standard performance in attestation engagements and implement steps designed to rectify such deficiencies. We have professional standards committees at both the national and state levels that are

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focused on ethics and the ethical responsibilities of practitioners. Public accounting firms are required to develop quality control policies and procedures to which the firm's professional staff is required to comply. These firms are required to design these standards to "promote an internal culture based on the recognition that quality is essential in performing engagements and should establish policies and procedures to support that culture. Such policies and procedures should require the firm's leadership to assume ultimate responsibility of the firm's system of quality control." All of these efforts are designed to monitor performance and head off the issuance of unreliable information and the incompetent performance of professional engagements.

Our big question after reading and analyzing this proposed standard is, "Have all of those efforts failed to accomplish their objectives?" One could easily conclude upon reading this proposed standard that our profession has decided to outsource the performance and competence evaluation of individual public practitioners to investors and corporate boards. Such a decision has obvious ramifications that would invite chaos and the potential for untold legal problems.

One of the quotes from the Council of Institutional Investors that was used to justify the development of this ED is as follows:

"Armed with valuable information provided by the lead auditor's signature, investors and boards will demand skilled engagement partners. The Council consequently believes that enhanced focus on the performance of the lead auditor will motivate audit firms to strengthen the quality, expertise, and oversight of the engagement partners. By more explicitly tying the lead auditor's professional reputation to the audit quality, requiring engagement partners to sign the audit report will further result in better supervision of the audit team and the entire audit process."

We believe this quote raises a number of questions regarding the justification of the proposed standard. Are these investors and boards not currently demanding skilled engagement partners? What valuable information will the signature of the lead audit partner provide? Does the Council have information that indicates a lack of focus on the part of the lead audit partner in a significant number of audit engagements, or is this merely a convenient conclusion? How does it follow that enhanced focus on the part of a lead auditor will motivate audit firms to strengthen the quality, expertise, and oversight of the engagement partners? How will requiring engagement partners to sign the audit report, or disclosing engagement partners' names, further result in better supervision of the audit team and the entire audit process?

We find the statements in this quote to be nothing more than self-serving comments designed to justify a requirement that has no logical support. It seems to us that having the firm as the guarantor of the competence with which the engagement was performed would be far more valuable to investors and boards than the name of an individual auditor. Also, the proposed standard constantly implies that the signature of an individual auditor will make the firm more responsible. We strongly believe that the signature of the **firm** makes the **firm** as well as **the individuals who make up that firm** more responsible!

Question 1: Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?

We do not believe disclosure of the engagement partner's name in the audit report would enhance investor protection. See our initial comments.

Question 2: Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?

We do not believe accountability is enhanced by either disclosing the partner's name or requiring the partner to sign the audit report. See our initial comments.

Question 3: Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?

Performing an audit in accordance with PCAOB standards is the responsibility of both the engagement partner and the audit firm. The firm has the overall responsibility to stand behind its professional staff and support their efforts, as well as the responsibility to take appropriate actions when the performance of the professional staff is found to be inadequate.

Question 4: Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?

The answer to this question depends on the knowledge of the person observing the disclosure. If we assume that the person reading this disclosure understands the concept of "an engagement partner" and knows what an audit is and what it entails, then the answer is yes, the proposed disclosure is clear. However, if the reader understands the concept of "an engagement partner" and is knowledgeable about an audit, why would the disclosure be necessary? On the contrary, if the reader didn't understand the concept of "an engagement partner" and was unfamiliar with an audit, then the disclosure would also be unnecessary. Thus, it appears to us that no matter what the situation, such a disclosure serves no real purpose.

Question 5: Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?

See answer to question 4. This disclosure also serves no useful purpose no matter who the recipient happens to be.

Question 6: Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?

The current responsibilities of auditors create a security risk that warrants treating auditors differently from others involved in the financial reporting process. The proposed amendments merely serve to enhance that security risk beyond a reasonable limit. Also, whether appropriate or not, the

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engagement partner is often seen as the sole "responsible" party. In such a case, how could security risk not be greater than others involved in the financial reporting process?

Question 7: Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?

How could it possibly not lead to an increase in private liability? Upset investors and financial statement users currently begin their legal actions in an audit-related suit by bringing legal action against the audit firm and may or may not include the engagement partner. Under the proposed rules, the audit partner will always be named in the action, thus increasing his or her private liability. The ultimate impact on the auditor's guilt or innocence due to the proposed amendments would best be addressed by a qualified attorney.

Question 8: What are the implications of the proposed disclosure rule for private liability under Section 10b?

Like question 7, this question is best addressed by a qualified attorney.

Question 9: Would the disclosure of the engagement partner's identity affect Section 11 liability? If so, what should the Board's approach be?

We believe the Board should consider an approach whereby each accounting firm designates a contact person who is responsible for disseminating information to interested persons regarding the individuals involved in performing the engagement.

Question 10: Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider?

We believe the Board should take the responsibility to research the answer to this question prior to continuing their pursuit of this proposed standard. This seems to be a question more related to the guidance in the standard rather than something that would be based on the input from those responding to the ED. Perhaps the Board should consult with qualified attorneys in gathering information on this issue.

Question 11: Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?

Short of eliminating this proposal, we are hard pressed to suggest a formulation that would soften or decrease the likely effect on liability.

Question 12: If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

Once you decide to require the disclosure, it doesn't seem to matter how often the disclosure is made.

Question 13: If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?

If the Board does not adopt the proposed requirement, we strongly encourage no further change in the disclosure of the name of engagement partners.

Question 14: Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?

We do not believe that more timely information about auditor changes would be more useful. Such information could easily be misinterpreted and is better left alone. We also are opposed to any special report on Form 3 regarding a change in engagement partner.

Question 15: A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?

We strongly disagree with such a disclosure. There are numerous reasons for a change in an engagement partner other than mandatory rotation. We feel the potential for misinterpretation by financial statement users of the reason for a change in engagement partner far outweighs any advantage that can result from such disclosure.

Question 16: Is it sufficiently clear who the disclosure would apply to? If not, how could this be made clear?

We believe it is sufficiently clear as to whom the disclosure would apply.

Question 17: Is it appropriate not to require disclosure of the individual who performed the EQR? If not, should disclosure of the engagement quality reviewer be required when the EQR is performed by an individual outside the accounting firm issuing the audit report or should the disclosure be required in all cases?

We agree that it would be appropriate to not require disclosure of the individual who performed the EQR. The EQR represents an objective assessment of the work performed by the engagement team and does not constitute audit work on the client's financial information.

Question 18: Is it appropriate not to require disclosure of the person that performed the Appendix K review?

We believe it is appropriate not to require disclosure of the person who performed the Appendix K review.

Question 19: Is it appropriate not to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor?

We find no useful purpose being served by such disclosure, especially in light of the fact that such information is already addressed in AU Section 336, *Using the Work of a Specialist*.

Question 20: Would disclosure of off-shoring arrangements (as defined in the release) or any other types or arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangements should be disclosed?

We do not believe disclosure of off-shoring arrangements is necessary. It is the same firm, just a different office. We can't imagine how disclosure of such a circumstance would be of benefit to users of the audit report.

Question 21: Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?

We are not convinced that a significant benefit would result from such disclosures. There could be a benefit in multinational audits where investors and other users would have an opportunity to consider the quality of those other participants who actually performed the audit of the subsidiaries and/or branches of the entity.

Question 22: Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?

We have a significant problem with this proposed requirement due to the lack of clarification that surrounds the 3% threshold and what is included in the computation of total hours. Do the total hours include the hours spent by a specialist who is also not required to be disclosed in the report? The proposed amendment does not require the disclosure of specialists or internal auditors. Does this mean that their hours should be excluded from the classification (other Participants, all individually less than 3% of total audit hours) found in Appendix C, page C-9 table? The current audit report is normally composed of three or four separate paragraphs. It appears to us that the report loses its relevant focus when an entire paragraph is included to mention the name of another firm when only one or two other participating firm's total hours only account for 3% of the total hours.

Question 23: Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?

The proposed requirements are clear and it appears appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship.

Question 24: Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?

We believe such disclosure would have an impact on a firm's ability to compete in the marketplace. This disclosure could draw the client's attention to the fact that they are paying audit fees based on a variety of billing rates from individual participants which may be based on geographical economic conditions.

Question 25: Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?

We find the new rule to be confusing to the financial statement users as it is fairly common knowledge that under the current rule, mentioning "other auditors" indicates a segregation of responsibility. It is misleading when the proposed amendment only requires the disclosure of total hours, but not the actual work and level of personnel who are involved in the audit. While disclosure of the hours contributed by other participants may benefit the financial statement users, it is not as useful when the users don't know the composition of those hours from staff level personnel to engagement partner hours. It apparently is different when 19% of the hours used by other participating firms is from an entry level staff member or is from an experienced manager. However, this kind of differentiation in disclosure would be cumbersome and would fall far short of satisfying the cost/benefit analysis. Also, the fact that different firms have different staff structures makes such disclosures even more difficult and potentially more confusing. Thus, the challenges are significant and would be most difficult, if not impossible, to overcome.

Question 26: Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?

If such a disclosure is required, the percentage of hours incurred by other participants may have some relevance. However, this factor alone should not form the basis to determine their involvement. Many factors can have an impact on the hours incurred and it is generally not practical for the signing firm to be involved in monitoring the hours incurred by other participating firms. In cases where other participating firms perform the audit of a subsidiary, the signing firm has little control over the actual hours spent auditing the subsidiary. A more meaningful disclosure in such situations would require an indication of the subsidiary, division, or component that was audited by the other participating firm(s). We believe users assess and evaluate financial statements and the audits of those financial statements in many different ways based on their particular needs. We further believe that the disclosure of the hours spent by the signing audit firm or any other participating firms would not provide meaningful information to users in assessing the financial statements or the audit. Further, disclosing a quantitative component like hours applied or percentage of total hours could easily lead to unwarranted conclusions on the part of those users.

Question 27: What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?

We believe many situations where other participating auditors are involved in the engagement are negotiated on a fixed fee basis. Therefore, the hours spent by other participants are most difficult to assess in terms of accuracy or relevance. In such situations, the signing firm would be required to assess the accuracy, relevance, and completeness of the time recorded by the other participant. In situations where the other participants are paid directly by the client based on a pre-determined fee arrangement, the burden on the signing firm to assess the reasonableness and accuracy of the hours incurred would create a significant burden. We feel the challenges, and the potential for erroneous data, in this area far outweigh any benefits that might accrue to the users.

Question 28: Should the Board require discussion of the nature of the work performed by the other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosure?

We believe including such a discussion could open the door to even greater problems than the percentage of audit hours would cause. The fact that financial statement users vary considerably in their sophistication, experience, and desires would cause such a discussion to lead to greater frustration and anxiety on the part of those users. Such a discussion would lead to more concerns, a greater number of questions, and could easily be misinterpreted based on the way the nature of the work was described. This type of discussion will definitely raise many more questions than it answers. We find the guidance in AU 543 to be sufficient in this area as such information can be disclosed to the PCAOB as part of their inspection and reporting process, but modification of the audit report to include hours or the nature of work performed by other participants is not needed!

Question 29: Would the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated be useful to users of the audit report?

We hold to our view that the disclosure of hours incurred by other participants would not be useful in any form. However, if disclosure of hours incurred by other participants is required, disclosure of the percentage of hours attributable to the work performed subsequent to the original report date would be necessary in order to keep the original disclosure relevant to the final dual-dated report. The guidance in AU 543 is sufficient.

Question 30: Is the example disclosure in the proposed amendments helpful? Would additional examples be helpful? If so, what kind?

Again, the example is sufficient, but we are not in favor of making this disclosure a requirement.

Question 31: Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% or greater? Would another threshold be more appropriate?

We continue to oppose the disclosure of the names of individuals participating in the audit. We further believe that the 3% parameter, if disclosure ultimately comes to pass, is a bit low. We're not sure what percentage is appropriate, but the general conception of materiality may find 3% to be a very small percentage to require disclosure.

Question 32: Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?

We believe this disclosure is even more inappropriate. What useful purpose would such disclosure serve? We can't think of any such purpose.

Question 33: Are the requirements to disclose the name and country of headquarters office location of the referred-to firm sufficiently clear and appropriate?

The disclosure seems clear and appropriate.

Question 34: Are there any challenges associated with removing the requirement to obtain express permission of the referred-to firm for disclosing its name in the audit report? If so, what are the challenges and how could they be overcome?

We are not aware of any challenges that might arise. However, common courtesy would seem to require notification that such disclosure is being made.

Question 35: In situations in which the audit report discloses both the referred-to firm and other participants in the audit, would using different disclosure metrics (e.g., revenue of the referred-to firm and percentage of the total hours in the most recent period's audit for the other firms and persons) create confusion? If so, what should the disclosure requirements be in such situations?

These disclosures, along with the other disclosures required by this guidance, are going to result in a great deal of confusion. The interesting issue regarding that confusion is the ultimate breadth of confusion that will result if these disclosures become a requirement. We do not believe the Board or any responding practice unit or organization has any idea as to the breadth of the confusion that will result. We are convinced that these disclosures will generate many questions and concerns on the part of users and lead to numerous misunderstandings that will negatively impact the decisions users make as a result of their interpretation of these disclosures.

We appreciate the opportunity to provide input into the standard-setting process.

Sincerely,

Kathryn W. Kapka

Kathryn W. Kapka, CPA, CIA, CGAP
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants

The Institute of Chartered Accountants in Australia

6 January 2012

The Office of the Secretary,
Public Company Accounting Oversight Board,
1666 K Street, NW
Washington, DC, 20006-2803 USA

Email: comments@pcaobus.org

Sir / Madam,

PCAOB Rulemaking Docket Matter No. 29
IMPROVING THE TRANSPARENCY OF AUDITS:
PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS AND FORM 2

The Institute of Chartered Accountants in Australia (Institute) is pleased to have the opportunity to respond to the above Rulemaking Docket. The Institute is Australia's premier accounting body, and represents over 55,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The Institute is a founding member of the Global Accounting Alliance (GAA), the international accounting coalition which provides reciprocal arrangements with ten other leading accounting bodies in the world. The GAA represents more than 780,000 members world-wide and includes leading professional accounting organisations from the USA, Canada, Hong Kong, England & Wales, Ireland, Scotland, Japan, Germany, New Zealand and South Africa. The Institute is the only Australian accounting body within the alliance.

As mentioned in previous submissions to the PCAOB we are of the view that, as a premier audit regulatory body, the PCAOB and its findings influence audit regulation globally and it is for this reason we offer our comments on this matter.

In summary we fully support efforts to improve audit quality. However, we have some reservations about the extent to which the proposed amendments to PCAOB auditing standards will actually contribute to these endeavours.

Audit partner name and signature

In Australia the requirement for audit reports to be signed in both the name of the firm and the engagement partner has been in place for many years now. Consequently these proposals would be considered to be relatively non controversial in this jurisdiction.

For the sake of clarity, the engagement partner is the individual who takes overall responsibility for the conduct of the audit in accordance with legislative requirements, auditing standards as well as the requirements of the firm.

We acknowledge that identification of the audit partner contributes to transparency and may be of some use to investors and other stakeholders. However, the extent to which this disclosure has changed firm and individual partner behaviour, and / or contributed to an improvement in audit quality, is unclear.

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Indeed there is no empirical evidence of which we are aware that this has enhanced audit quality or reduced audit failure. The Australian experience in this regard is no different from other jurisdictions where the engagement partner is not named in the audit report. In our view, therefore, this step is peripheral to the development of audit quality.

As mentioned in previous submissions to the PCAOB, in our view the focus should continue to be on ongoing improvement in enhancing audit quality, by better understanding the drivers of audit quality and continuing to enhance the role of the audit committee.

Disclosure of other persons and firms involved in the audit

We do not support the proposal to disclose in the audit report the names of other accounting firms and persons that have taken part in the audit. We understand the PCAOB's desire to improve transparency by means of this proposal. But we consider that, while well-intentioned, if the proposal is implemented it is more likely to add to confusion rather than enhance transparency.

In situations where the engagement partner uses the work of other accounting firms or experts, the auditing standards are quite clear that the partner has to satisfy himself or herself as to the competency of those to whom work is being assigned. The engagement partner is then required to monitor and review the work of the other party to ensure they have sufficient appropriate audit evidence of suitable quality to satisfy the requirements of that engagement partner and of their firm.

Responsibility for the quality of the audit is thus unequivocally that of the engagement partner.

In our view the auditor using the work of others is far better placed to make the assessment by direct processes of interrogation or inspection than the investing public or their advisers.

Adding a list of others involved in the conduct of the audit creates the risk of the lines of responsibility for the conduct of the audit becoming blurred and adding to stakeholder confusion, rather than enhancing transparency.

A better place for the discussion of the roles various parties play in the conduct of the audit is the audit committee, which has a major responsibility to shoulder in ensuring that the audit process is effective.

We would be happy to elaborate on the foregoing matters should you wish.

Yours sincerely

Lee White FCA
Chief Executive Officer
Institute of Chartered Accountants in Australia

19 December 2011

Our ref: ICAEW Rep 122/11

Your ref: PCAOB Rulemaking Docket Matter No. 29

Office of the Secretary,
PCAOB, 1666 K Street,
N.W., Washington, D.C. 20006-2803.
USA

Dear Sir

IMPROVING THE TRANSPARENCY OF AUDITS: PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS AND FORM 2

ICAEW is pleased to respond to your request for comments on PCAOB Release No. 2011-007 of October 11, 2011 entitled *Improving the Transparency of Audits: Proposed Amendments To PCAOB Auditing Standards and Form 2*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REP 122/11

ICAEW REPRESENTATION

ICAEW RESPONSE TO THE PCAOB'S REQUEST FOR COMMENT ON *IMPROVING THE TRANSPARENCY OF AUDITS: PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS AND FORM 2*

Memorandum of comment submitted in December 2011 by ICAEW, in response to the PCAOB's consultation *Improving the Transparency of Audits: Proposed Amendments To PCAOB Auditing Standards and Form 2* published in October 2011.

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the PCAOB's proposals *Improving the Transparency of Audits: Proposed Amendments To PCAOB Auditing Standards and Form 2* published in on 11 October 2011 a copy of which is available from this link.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 136,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

4. The Audit and Assurance Faculty is a leading authority on external audit and other assurance activities and is recognised internationally as a source of expertise on audit issues. It is responsible for technical audit and assurance submissions on behalf of ICAEW as a whole. The faculty membership consists of nearly 8,000 members drawn from practising firms and organisations of all sizes from both the private and public sectors. Members receive a range of services including the monthly Audit & Beyond newsletter.

MAJOR POINTS

Disclosure of Other Participants in the Audit

5. We support PCAOB's desire to improve transparency in auditor reporting. We also understand the discomfort of investors concerned about a lack of clarity regarding who is responsible for large multi-national audits, who has performed them, and the extent to which reliance has been placed on the work of auditors in distant jurisdictions whose business practices and cultures may not be well-understood in the US.

6. Unfortunately, we believe that the PCAOB, with the best of intentions, risks creating a charter for more uncertainty, not less. Implementing these proposals could be seriously counterproductive. Providing a great deal of information about who has been involved with the audit in an attempt at improving transparency may well increase confusion about who is responsible for the audit, because there is an element of a trade-off between transparency and accountability. Excessive transparency in the form of information overload is not good for accountability. If everyone appears to be responsible, no-one is. There is a risk that investors will not be able to see the wood for the trees which would defeat the object of the proposals.

7. We believe that what investors really need to know is who is responsible for the audit. They have a right to know who has been involved in the audit but this information does not belong in the auditors' report. If a long list of people involved in the audit appears in the auditors' report, doubt will be cast, at best, on whether the engagement partner identified in the report, or indeed the firm, is actually responsible for the audit.

8. We do not believe that transparency is an end in itself, and we do not believe that of itself it will enhance investor protection. Having information is not the same as understanding it or putting it to good use and there is a risk that accountability will be lost in a sea of spurious transparency. A more appropriate home for this information would be with the audit committee, which should be in a good position to evaluate it and communicate salient points to the board and investors. It is likely that extensive public disclosures about firms involved in multinational audits will be tracked. Attempts will be made to equate poor audit quality with the extensive use of other firms, without proper consideration of the (usually very sound) reasons for using local auditors. It is possible that as a result, firms may inappropriately seek to restrict the performance of audits to members of network firms in the interests of appearance, regardless of the effect on audit quality, increasing audit costs, and quite possibly the cost of capital if the wrong messages are sent to the market.

9. While the proposals do not address the merits or otherwise of divided responsibility, we strongly believe that this continued practice is the root of many of the problems that the PCAOB is trying to remedy,

Auditor signature proposals

10. Proposals for disclosure of the identity of the engagement partner are uncontentious and satisfy a deep-seated need among investors to know who within the firm has responsibility for the engagement. When similar proposals in the UK were first put forward, firms were wary of the possible effects of identifying the engagement partner. They were also sceptical about the implicit expectation that auditor behaviour would change. As with any change, at first, the novelty value made people sit up and pay attention but the effect rapidly wore off and there is now little mention of the subject. We believe that the initial scepticism about the effects of identification on auditor behaviour has been borne out. The UK requirements, despite the additional requirement for a signature, do not appear to us to have resulted in much, or indeed any behavioural change. Identifying the engagement partner might have improved perceptions of transparency but we have yet to be convinced of a significant effect on audit partner, firm or engagement team behaviour, other than an increase in administrative requirements. Requiring a signature, as opposed to simply identifying the engagement partner probably makes little difference but on balance, we believe that a signature deflects attention, probably inappropriately, from the firm as a whole.

RESPONSES TO SPECIFIC QUESTIONS

Disclosure of the Engagement Partner

A: The Proposed Audit Report Disclosure

1. Would disclosure of the engagement partner’s name in the audit report enhance investor protection? If so, how? If not, why not?

11. Disclosure of the engagement partner’s name in the audit report may improve transparency but we do not believe it will of itself enhance investor protection.

2. Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?

12. We have yet to be convinced that disclosing the name of the engagement partner or indeed requiring signature by the engagement partner in the audit report increases the engagement partner's sense of accountability in any of the jurisdictions in which the requirement is in place.

3. Does the proposed approach reflect the appropriate balance between the engagement partner’s role in the audit and the firm’s responsibility for the audit? Are there other approaches that the Board should consider?

13. There is a risk that the identification of the engagement partner deflects attention from the responsibility of the firm as a whole. In most jurisdictions, the US being a notable exception where the audit committee appoints the firm, the shareholders are responsible for approving the appointment of the firm, not the individual engagement partner.

4. Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved? and

5. Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?

14. If a requirement to disclose the engagement partner name is introduced, it would be preferable not to have more than one name in the audit report. Distinguishing between the partners responsible for the current year audit and the prior period audits would inevitably lead to confusion. It is certainly possible to envisage a situation where three partners are named as being responsible for each of the years presented which would not be helpful to investors.

15. The issue of dual dating is more problematic given that the incremental audit work performed for the dual dating period may be limited. Accordingly, while dual dating is retained within PCAOB standards, the proposed disclosure is probably appropriate in such circumstances.

6. Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?

16. The PCAOB notes ICAEW concerns about security risks to auditors in its proposals but does not deal with the issue. We note that with a few exceptions, other advisers are not identified personally in the financial reporting process. Those who are identified are generally individuals who occupy senior positions in the reporting entity and whose appointment in an individual capacity is approved by the shareholders. Audit *firms*, on the other hand, are appointed as the auditor and not individual engagement partners. The audit engagement partner stands alone as a third party professional under these proposals and while under European law there are limited exceptions to deal with security concerns, no such protection is afforded under the PCAOB's proposals.

7. Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner? and

8. What are the implications of the proposed disclosure rule for private liability under Section 10(b)? and

9. Would the disclosure of the engagement partner's identity affect Section 11 liability? If so, what should the Board's approach be?

10. Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider? and

11. Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?

17. We make no comment on those parts of these questions which, as a matter of US law, are outside our expertise. However, some protection to European auditors is afforded by European law, as noted in the proposals. Nevertheless, we would be concerned if in fact disclosure were to generate actions against partners in the US.

B: The Proposed Amendment to Form 2

12. If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2? and

13. If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2? and

14. Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners? and

15. A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?

18. If the identity of the engagement partner is disclosed in the audit report, it would appear to be a natural follow-on for the same information to appear in Form 2. Changes in engagement partner can often appear more significant than they actually are and the PCAOB needs to consider whether the administrative cost of collecting this information will be of any real benefit other than to satisfy curiosity.

Disclosure of Other Participants in the Audit and Referred-to Accounting Firms

A. Disclosure When Assuming Responsibility or Supervising

1. Applicability of the Proposed Disclosure

16. Is it sufficiently clear who the disclosure would apply to? If not, how could this be made clear? and

19. Yes

17. Is it appropriate not to require disclosure of the individual who performed the EQR? If not, should disclosure of the engagement quality reviewer be required when the EQR is performed by an individual outside the accounting firm issuing the audit report or should the disclosure be required in all cases? and

18. Is it appropriate not to require disclosure of the person that performed the Appendix K review? and

19. Is it appropriate not to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor?

20. We cannot see how investor protection will be genuinely enhanced by disclosure of the EQR, or the person that performed the Appendix K review, or the specialists described in Q19 in any circumstances. Such information is simply too low level and granular to have any significance to investors and may appear to further dilute the responsibility of the firm for the audit opinion. Furthermore, Appendix K is clear that the Appendix K reviewer, who may well be employed by another firm, is not responsible for the audit. Disclosing that individual's name would likely give the misleading impression that they were in fact responsible for the audit.

2. Details of the Disclosure Requirements

20. Would disclosure of off-shoring arrangements (as defined in the release) or any other types of arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangements should be disclosed? And

21. Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not? and

22. Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised? and

23. Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship? and

24. Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace? and

25. Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?

21. It is important, as noted in our main points above, that transparency does not obscure accountability. It is likely that there will be inappropriate focus on the location of the relevant office at the expense of understanding how tightly the office is controlled, which is more important from an audit quality point of view. It is important that such disclosures are made in context. Investors are better served by an explanation that significant operations in India are audited by offices in India than a bald statement to the effect that a percentage of the audit was conducted by an office in India.

22. If PCAOB does require such disclosure, we suggest that the relevant participants be categorised as follows:

- Network firms registered with the PCAOB
- Non-network firms registered with the PCAOB
- Firms not registered with the PCAOB

23. It may also be appropriate to further identify within each category those firms in countries where the PCAOB is not currently able to conduct inspections.

3. Disclosure of Percentage of the Total Hours in the Most Recent Period's Audit, Excluding EQR and Appendix K review

26. Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants? and

27. What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present? and

28. Should the Board require discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosures? and

29. Would the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated be useful to users of the audit report?

30. Is the example disclosure in the proposed amendments helpful? Would additional examples be helpful? If so, what kind?

24. We do not believe that the percentage of total hours is either a reasonable measure of the extent of the other participants' participation, nor do we believe that its disclosure will be useful to investors or enhance investor protection. The percentage of hours expended does not necessarily correlate with audit risk or reflect the experience of the individual. Clearly, hours spent by the lead client service partner are more important to audit quality than those of a new associate employed by another participant in the audit.

25. Furthermore, where network firms are tightly controlled, such information will not reveal the extent to which one firm performed work for others within the network. While a description of the nature of the work performed would be necessary to make any sense of the figures, it would likely be lengthy, complex and boilerplate. It would risk being a *de facto* disclosure of the audit strategy to the auditee and the world at large, and indirectly disclosing information about the entity's operations that should properly be disclosed by management.

4. Thresholds

31. Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% or greater? Would another threshold be more appropriate? and

32. Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?

26. We do not understand the rationale for the 3% threshold and believe it could lead to excessive disclosure if each individual firm were named. It may be more logical to use a 20% threshold consistent with the definition of 'substantial role' in the PCAOB's rules.

B: Disclosure When Dividing Responsibility

33. Are the requirements to disclose the name and country of headquarters' office location of the referred-to firm sufficiently clear and appropriate?

27. The proposed requirements are clear but we are not convinced that this level of detail will be helpful to investors.

34. Are there any challenges associated with removing the requirement to obtain express permission of the referred-to firm for disclosing its name in the audit report? If so, what are the challenges and how could they be overcome?

28. We do not comment on this issue which is a matter of US law and practice.

35. In situations in which the audit report discloses both the referred-to firm and other participants in the audit, would using different disclosure metrics (e.g., revenue for the referred-to firm and percentage of the total hours in the most recent period's audit for the other firms and persons) create confusion? If so, what should the disclosure requirements be in such situations?

29. It seems self-evident that two sets of metrics will cause confusion. The extant metrics are at least well-established.

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CENTER FOR CAPITAL MARKETS
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January 9, 2012

Mr. J. Gordon Seymour
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Re: PCAOB Proposed Rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (PCAOB Release No. 2011-007, October 11, 2011 and PCAOB Rulemaking Docket Matter No. 29)

Dear Mr. Seymour:

The U.S. Chamber of Commerce (the "Chamber") is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.

The CCMC believes that businesses must have a strong system of internal controls and recognizes the vital role external audits play in capital formation. The CCMC appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") Proposed Rulemaking on ***Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*** ("the Proposal").

The CCMC is concerned that the Proposal will undermine the foundation of the audit process impairing transparency and accountability. The CCMC believes that the Proposal in its current form will obfuscate essential responsibilities thereby harming accountability. Because of these concerns and the lack of any tangible demonstrated benefit, the CCMC believes that the Proposal should be reassessed through a public roundtable of all interested stakeholders and additional outreach such as field testing.

Rather than moving forward on this Proposal, the CCMC believes that the PCAOB should concentrate its efforts on updating its quality control standards that are long overdue for updating.

Discussion

The Proposal would amend the PCAOB standards and rules to require registered public accounting firms to make two new disclosures in the audit report:

1. The name of the engagement partner for the most recent period's audit; and

2. Information on other independent public accounting firms and other persons that took part in the audit. In addition, the name of the engagement partner would also be required to be disclosed in Form 2 filed with the PCAOB for each audit report already required to be reported on the Form.

A foundational precept of independent audits is that the audit firm has ultimate responsibility for the audit report, while the opinion rendered represents the combined efforts of a team of individuals. Proposing disclosure requirements that could undermine and confuse this essential responsibility would impair transparency and accountability. It is also unclear what the objectives of the Proposal are, how the Proposal furthers the mission of the PCAOB, and what the consequences of the Proposal are in terms of its costs and benefits.

1. Disclosing the Name of the Engagement Partner

The proposal to disclose the name of the engagement partner for the most recent period's audit evolved from the PCAOB's ***Concept Release on Requiring the Engagement Partner to Sign the Audit Report*** issued on July 28, 2009. Among the concerns expressed by commenter's on that Concept Release was that partner signatures would suggest the engagement partner is responsible for the audit engagement and increase engagement partner legal liability.

The CCMC commends the PCAOB for responding to these concerns by not pursuing the original Concept Release. However, the CCMC believes that these fundamental concerns regarding the Concept Release hold equal weight with the current Proposal.

It is also problematic that the PCAOB continues to move in the direction of expecting engagement partners to somehow build their own individual reputations for audit quality, independent of their firm's reputation, undermining accountability in the audit process and harming investor protection.

In reality, the firm's quality control system, in accordance with the PCAOB's "interim" quality control standards, provides the foundation for the efficacy of the work performed on the engagement by the team of individuals in rendering the audit opinion. The CCMC believes that the PCAOB's quality control standards are long overdue for updating. Investors would likely be better served by the PCAOB focusing its efforts on updating these standards rather than diverting its time and resources on the Proposal.

a. Legal Liability

The potential for the disclosure of the name of the audit partner to increase engagement partner legal liability was recognized by Board Member Dan Goelzer in his Statement on the Proposal and his comments at the PCAOB's open Board meeting on October 22, 2011. The duties and relationships established by federal securities laws, Securities Exchange Act Rule 10b-5 and Securities Act Section 11 are the basis of those concerns. The June 2011 decision of the U.S. Supreme Court in *Janus Capital Group, Inc.*[1] has added to the uncertainty over legal liability under Rule 10b-5 in the context of this Proposal. In addition, it remains to be seen whether the Securities and Exchange Commission ("SEC") would require issuers to file not only the consent of the accounting firm that prepared the audit report but also a separate

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[1] See *Janus Capital Group, Inc. v. First Derivative Traders,* 131 S.Ct. 2296 (2011).

consent of the engagement partner whose name is disclosed in the audit report.[2] If this requirement unfolds, this would subject the partner, along with the accounting firm, to potential Section 11 liability. Further, the CCMC understands liability issues could potentially extend to disclosure of the name of the engagement partner in PCAOB Form 2.

Given these legal uncertainties, the CCMC believes it would be premature of the PCAOB to proceed with this Proposal. The Board needs to fully understand the liability implications and have persuasive evidence that disclosure of the name of the engagement partner would be liability neutral. Neutrality is consistent with the recommendation of the Advisory Committee on the Auditing Profession ("ACAP") that was the genesis for the Proposal.[3] The ACAP recommendation was premised on the condition that the requirement not impose on the engagement partner "any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm."[4]

b. Objectives

The Proposal reiterates that the objectives from the Concept Release on partner signature—namely transparency and accountability—continue to be the objectives for disclosing the name of the engagement partner in the audit report and on PCAOB Form 2. Unfortunately, these objectives lack clarity in the context of this Proposal.

While the Proposal articulates the "means" of disclosing more information, it fails to state the "ends" it seeks to achieve. The Proposal fails to articulate the problem that needs to be addressed and how disclosing the name of the engagement partner will enhance financial reporting for investors.

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[2] If this scenario was to unfold, it is unclear if an issue of consent would be created for others participating in the audit.
[3] ACAP recommended that the PCAOB "undertake a standard-setting initiative to consider mandating the engagement partners' signature on the auditor's report (*Final Report of the Advisory Committee on the Auditing Profession to the* U.S. *Department of the Treasury*, (2008), VII: 19, VII: 20).

[4] *Ibid* at VII: 20. The ACAP Report also noted that this language is similar to safe harbor language the SEC promulgated in its rulemaking pursuant to The Sarbanes-Oxley Act of 2002 ("SOX") for audit committee financial experts.

Such an articulation is important as the Proposal simply provides conjectures for some of which the Board seeks comments on. For example, the Board asks whether the additional transparency could promote auditor independence by discouraging audit clients from inappropriately pressuring the firm to remove an engagement partner sooner than is required under the partner rotation requirements in SOX and SEC rules[5]. Yet, there are many substantive reasons for changes in engagement partners. And, without additional information disclosed about the reason for a change in the engagement partner an "inappropriate" partner change could not be discerned from a change in the name alone.

At the November 2011 meeting of the PCAOB's Standing Advisory Group ("SAG"), PCAOB staff emphasized that no such additional disclosure regarding a change in engagement partners is proposed or planned. Indeed, current disclosure requirements on auditor change reside within the SEC's jurisdiction and strongly suggest that any rulemaking along these lines would be better left to the SEC.

In the Proposal, accountability is described in terms of the original Concept Release with the added proviso that disclosure may make partners feel more accountable for the quality of the work and, therefore: "Disclosing the name of the engagement partner may be one means of promoting better performance"[6]. Not all agree with that statement and at the November 2011 SAG meeting; one SAG member took strong issue with this notion.

Reinforcing the speculative and likely illusory nature of any such improvements, the PCAOB has provided no evidence related to how this Proposal might improve audit quality. This is important because audit quality is the PCAOB's mission. As Dan Goelzer stated at the PCAOB's open Board meeting on October 11, 2011: "Unless engagement partner disclosure can be directly linked to improving audit quality, or to promoting understanding of the financial statement audit or of the Board's inspection program, the issue would seem to fall in the SEC's bailiwick."[7]

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[5] PCAOB Proposed Rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (PCAOB Release No. 2011-007, October 11, 2011 and PCAOB Rulemaking Docket Matter No. 29), Page 9.
[6] Ibid.
[7] See "Statement on Proposed Amendments to Improve Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits" at the October 11, 2011 PCAOB Open Board Meeting by Daniel L. Goelzer, Board Member.

c. Improving Audit Quality

Evidence linking the Proposal with improvements to audit quality is a necessary condition for PCAOB rulemaking and for SEC approval of such rulemaking. The absence of any such evidence is likewise troublesome because the PCAOB considers collecting such evidence through its inspection process as one of its unique strengths. For example, the PCAOB's Strategic Plan for 2011-2015 (the "Strategic Plan") states: "We possess unique data and analysis related to audits based on eight years of inspections and enforcement experience, as well as a sophisticated research and analysis function".[8] Yet, there is no PCAOB data or analysis in evidence to support this Proposal and the Proposal makes no reference to the PCAOB having either collected or analyzed any relevant data.

Paradoxically, the objective for the disclosure of the name of the engagement partner, particularly the Form 2 disclosures, appears to be to facilitate analysis *by others,* not for the benefit of the PCAOB. For example, the Proposal states the purpose of the Form 2 disclosures is to compile this information in one place that could be easily accessed[9]. This implies that meaningful analysis of this data is possible and useful, which in reality is problematic given the complex nature of audit quality. This also ignores the facts that a thorough analysis of any such data requires such data to be considered in conjunction with information that may not be available or relevant to investors.[10]

Finally, it is worth noting that the PCAOB has not yet developed audit quality indicators—another ACAP recommendation. It would seem that the development of such indicators should occur in advance of any rulemaking on disclosing the name of the engagement partner as, at least implicitly, the Proposal is suggesting that the name of the engagement partner is somehow a quality indicator.

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[8] See Public Company Accounting Oversight Board Strategic Plan: *Improving the Relevance and Quality of the Audit for the Protection and Benefit of Investors 2011-2015* (November 30, 2011), Page 8.
[9] PCAOB Proposed Rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (PCAOB Release No. 2011-007, October 11, 2011 and PCAOB Rulemaking Docket Matter No. 29), Page 17.
[10] Additionally, the Proposal fails to take into account that various actors aggregate a variety of data from SEC filings that they find relevant.

d. Other Costs and Benefits

An additional motivation for disclosing the name of the engagement partner appears to be to provide useful information for audit committees. For example, the Proposal reiterates a point made in the Concept Release that "providing financial statement users, audit committees, and others with the name of the engagement partner might provide them the opportunity to evaluate, to a degree, an engagement partner's experience and track record. If so, audit committees might increasingly seek out engagement partners who are viewed as performing consistently high quality audits, and the resulting competition could lead to an improvement in audit quality"[11]. However, this rationale cannot serve as a basis for rulemaking as audit committees already have access to this information and would need to use it in conjunction with a variety of other information, both public and private, for assessing quality on their audits.

As expressed in previous letters to the PCAOB,[12] the CCMC continues to be concerned that this Proposal provides yet another illustration of the PCAOB's skepticism regarding the role of audit committees and that this and other PCAOB proposals may actually interfere with the prerogatives, discretion and duties of audit committees. For example, with this Proposal, the PCAOB seems to be expecting investors to second guess the work of audit committees based on "one" data point – the name of the engagement partner.

2. Disclosing Information on Others Participating in the Audit

Somewhat ironically the Proposal combines a disclosure focused on one individual with a requirement to disclose more information about others participating in the engagement not employed by the auditor. The Proposal calls for disclosure, with limited exceptions, of other participants in the audit for whose audit the auditor takes responsibility or whose audit procedures the auditor supervises. The Proposal

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[11] Ibid, Page 6.

[12] For example, see the September 14, 2011 letter from the U.S. Chamber of Commerce CCMC to the PCAOB on the *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements* (PCAOB Release No. 2011-003, June 21, 2011, Rulemaking Docket Matter No. 34) and the October 20, 2011 letter from the U.S. Chamber of Commerce CCMC to the PCAOB on the *Concept Release on Auditor Independence and Audit Firm Rotation* (PCAOB Release No. 2011-006, August 15, 2011, PCAOB Rulemaking Docket Matter No. 37).

would require the auditor to disclose in the audit report, the names, location, and percentage of hours attributable to the other participants for those whose participation is 3% or greater of total hours. Disclosures would also be required when the auditor divides responsibility with another independent public accounting firm.

The Proposal suggests that these disclosures would "enable investors and other users of the audit report to determine whether a disclosed independent public accounting firm is registered with the Board and has been subject to PCAOB inspection, and whether a disclosed independent public accounting firm or another person has had any publicly available disciplinary history with the Board or other regulators"[13]. However, this is information that the audit committee has access to and can consider in exercising its oversight responsibilities. Further, the auditor either takes responsibility for the work of others or divides responsibility. In the case of the later, current disclosures to investors do not appear wanting for assessing audit quality and the applicability of PCAOB inspection information.

Essentially the "new" information proposed to be disclosed involves work for which the auditor assumes responsibility. As such, the proposed disclosures are likely to only cause confusion over who has responsibility for the audit. The CCMC notes that avoiding such confusion is an important objective of current auditing standards. This suggests that investors would be better served with more targeted disclosures founded on some meaningful objective.

The potential for confusion is exacerbated by the low threshold for disclosure of 3% being proposed. The basis for this threshold is unclear as the Proposal provides no meaningful rationale for it. Further, a 3% threshold is much lower and in marked contrast to the 20% threshold already incorporated in PCAOB rules to determine others performing a substantial role in audits and thus subject to PCAOB registration and inspection. So, why should investors be interested in what the PCAOB is not?

Further, there is no indication that the PCAOB has field-tested the 3% threshold to determine the relevance of the information to be disclosed. For example,

[13] PCAOB Proposed Rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (PCAOB Release No. 2011-007, October 11, 2011 and PCAOB Rulemaking Docket Matter No. 29), Page 20.

the Proposal contains no useful illustrations based on real-world data. The absence of these data to inform stakeholders about the implications of the Proposal is surprising, given the PCAOB has access to the necessary data through its inspection process and, as previously noted, the PCAOB emphasizes this in its Strategic Plan as strength of the organization.[14]

Conclusion

The CCMC appreciates the opportunity to comment on the Proposal. However, the CCMC believes that the Proposal will disseminate information that is non-material, lacks relevance that could undermine the fundamental foundations of the audit function hampering the ability of investors to make informed decisions. Without a clear articulation of the problems to be solved and the benefits of the proposal, the CCMC does not believe that the proposal should move forward.

Furthermore, based on the statements and comments by Board members at the October 11, 2011 open Board meeting, it appears that the majority of Board members strongly support enacting the Proposal raising potential due process questions. The CCMC hopes that the PCAOB will take the concerns expressed in this letter under consideration when deliberating on the Proposal.

Thank you for your consideration and the CCMC stands ready to discuss these concerns in further detail.

Sincerely,

Tom Quaadman

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[14] While the CCMC does not believe that it is in the best interests of financial reporting to move forward on this proposal, one alternative the PCAOB may wish to consider is that the Form 2 would be a more useful location for such disclosures, as the determination of information in SEC filings is more appropriately maintained within the SEC's jurisdiction, Form 2 disclosures would not lengthen issuer and broker-dealer filings with tangential information, and Form 2 disclosures would not be subject to the estimation of hours necessitated by the short time constraints for SEC filings. In addition, disclosure in Form 2, instead of the audit report, might help mitigate potential liability issues and confusion over auditor responsibility, as previously discussed.

United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

January 3, 2012

Via Electronic Submission (comments@pcaobus.org)

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket No. 29 on Disclosing Audit Engagement Partners

Dear Members of the Board:

The purpose of this letter is to express support for amendments proposed by the Public Company Accounting Oversight Board (PCAOB) to improve audit quality, transparency, and accountability by requiring registered public accounting firms to disclose the name of the lead engagement partner in each audit report and in the firm's Annual Report Form as well as the name of any other independent public accounting firm or other person who took part in the audit.

Strengthening Public Company Audits. The U.S. Senate Permanent Subcommittee on Investigations, which I chair, has long had an interest in strengthening audits of publicly traded corporations to protect investors, prevent fraud, and provide a strong foundation for the American economy. Its investigations have included exposing the poor quality audits that contributed to the collapse of the Enron Corporation,[1] the development and sale of financial products designed to help corporations hide debt on their financial statements,[2] and the development and sale of abusive tax shelter and other schemes by accounting firms and other professionals to minimize corporate taxes and inflate corporate earnings.[3] The Subcommittee's work has contributed to legislative efforts to strengthen the auditing process, including the Sarbanes-Oxley reforms that created the PCAOB, imposed new requirements to ensure auditor independence, and strengthened corporate board oversight of auditing procedures.[4]

Poor quality audits of publicly traded corporations continue to plague the U.S. investment community, allowing misleading accounting, outright frauds, and substantial losses to occur. Egregious recent examples include Olympus Corp., where Japanese affiliates of KPMG and Ernst & Young approved financial statements in which the corporation shifted billions of dollars

[1] See "The Role of the Board in Enron's Collapse," S. Hrg. 107-511, May 7, 2002.
[2] See "The Role of Financial Institutions in Enron's Collapse," S. Hrg. 107-618, July 23 and 30, 2002.
[3] See, e.g., "U.S. Tax Shelter Industry: The Role of Accountants, Lawyers, and Financial Professionals," S. Hrg. 108-473, November 18 and 20, 2003; "Tax Haven Abuses: The Enablers, The Tools and Secrecy," S. Hrg. 109-797, August 1, 2006, case histories involving the POINT strategy and Kurt Greaves.
[4] See Sarbanes-Oxley Act of 2002, P.L. 107-204.

in investment losses off its balance sheet while including other assets at inflated values;[5] Satyam Computer Services Ltd., where an Indian affiliate of PricewaterhouseCoopers approved financial statements in which the company reported years of inflated assets and cash balances;[6] and Parmalat, where Italian affiliates of Grant Thorton and Deloitte Touche approved financial statements in which the company reported over $5 billion in phantom assets and falsified earnings.[7] Those are on top of older accounting scandals involving prominent public corporations like Enron, WorldCom, Xerox, and Adelphia.[8] These prominent audit failures indicate that more needs to be done to encourage accurate and effective audits of public corporations and increase accountability for poor auditing practices.

Proposed Amendments. In 2009, in a bid to strengthen audit quality, transparency, and accountability, the PCAOB issued a Concept Release seeking comment on whether auditors should require the engagement partner with final responsibility for a particular audit to sign the audit report. The engagement partner is the key person within a registered public accounting firm who is "responsible for the engagement and its performance," and who coordinates and oversees the audit work and issuance of the audit report.[9] After receiving multiple comments, in 2011, the PCAOB issued the revised proposal currently under consideration. This proposal would require public auditors to disclose the name of the engagement partner in each audit report, but would not require the partner to sign the report; it would require each audit report listed in a public accounting firm's Annual Report Form to identify the relevant engagement partner; and it would require each audit report to disclose the name of any independent public accounting firm or other person who took part in the audit. All three of these proposals are important reforms that would strengthen public company audits.

Increased Public Disclosure. The Board's proposal to increase public disclosures about who actually conducts and is responsible for a particular audit is a welcome departure from a history of excessive secrecy and weak accountability for public company audits.

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[5] See, e.g., Graham v. Olympus Corp., Case No. 5:11-cv-07103 (E.D.Pa. filed Nov. 14, 2011), class action complaint, http://www.izardnobel.com/admin/uploads/12368843364ec431add96d8.pdf; "Olympus' Auditors Should Be Scrutinized," Nikkei Report (Nov. 21, 2011), http://global.factiva.com/redir/default.aspx?p=sta&ep=AE&an=NKRP0000201111121c7bl0003i&fid=301000010&cat=a&aid=9CAP002100&ns=18&fn=EAFM%20Accounting&ft=g&OD=V2AUbjNaqd6b6yKMegonfnoY9oOdATkhWR19knPBTvmljPNVjs%2fEl5nw%3d%3d%7c2.

[6] See, e.g., SEC v. Satyam Computer Services Ltd., Case No. 1:11-cv-00672 (D.D.C. assigned Apr. 5, 2011), SEC complaint, http://www.sec.gov/litigation/complaints/2011/comp21915.pdf; "Satyam: Not The Only Case PwC Worried About," Accounting Watchdog (Aug. 5, 2011), http://www.forbes.com/sites/francinemckenna/2011/08/05/satyam-not-the-only-case-pwc-worried-about/.

[7] See, e.g., SEC v. Parmalat Finanziaria S.p.A., Case No. 03-cv-10266, (S.D.N.Y. 2004), first amended SEC complaint, http://www.sec.gov/litigation/complaints/comp18803.pdf; In re Parmalat Securities Litigation, No. 1:04-md-01653 (S.D.N.Y. filed Jan. 27, 2009), memorandum opinion, http://online.wsj.com/public/resources/documents/parm.pdf.

[8] See, e.g., Sen. Levin Remarks, Cong. Rec. S6563 (July 10, 2002).

[9] See paragraph 3 of Auditing Standard No. 9, "Audit Planning"; and paragraph 3 of Auditing Standard No. 10, "Supervision of the Audit Engagement."

Most public company audits are now performed by a small number of large firms. The "Big Four" accounting firms, which reported $45 billion in revenue in 2011 alone,[10] employ thousands of auditors with differing experience, qualifications, expertise, and work performance. Currently, these firms provide no routine public information about the engagement partner who is responsible for the audit of a particular company nor do they provide information about any third party contributor to their audits. Investors, lenders, regulators, and others currently have no means for tracking audit partners responsible for accurate audits, audit failures, or audits later found to have varying strengths and weaknesses.

Because auditing firms are paid by the companies whose financial statements they audit, inherent conflicts of interest make public accountability and transparency all the more important. An accounting firm that receives large auditing fees from a client becomes susceptible to pressures by that client to overlook problems or resolve auditing issues in ways that are overly favorable to the client, or risk losing fee revenue. Engagement partners that recommend advising a client to accept a disagreeable auditing result may receive little or no support from colleagues concerned about losing business. Public accountability, in which specific individuals are recognized for high quality audits, as well as audit failures, can be a powerful antidote to such internal pressures.

Disclosing the Engagement Partner. Multiple reasons support disclosing the name of the engagement partner responsible for a particular audit. First is the impact on audit quality. Publicly tying the lead auditor's professional reputation to the audits for which that partner is responsible would encourage the partner to require better audit procedures, exercise better supervision of the audit team, and perform a more careful review of the audit results. It may also deter poor oversight, sloppy procedures, and high risk audit practices leading to unreliable audit opinions. Audit quality would improve, not only because engagement partners would want to protect their professional reputations, but also because public disclosure would expand the audience to which each partner would be routinely answerable, from the partner's firm and the audit client, to the broader business community, including investors, lenders, regulators, policymakers, and fellow auditing professionals.

Second, disclosure of the engagement partner's name would strengthen audit transparency by shedding light on the audit process and facilitating communications. Identifying the engagement partner would alert the audited corporation's officers, directors, audit committee, and employees to the key person responsible for resolving audit issues and help corporate employees communicate any auditing concerns to the right person. It would also inform third parties, including investors, lenders, regulators, and others, of the right person to contact with

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[10] See "PwC reports FY2011 global revenues of US $29.2 billion" (Oct. 3, 2011), http://www.pwc.com/gx/en/press-room/2011/fy2011-global-revenues.jhtml; "Deloitte continues as an engine of employment creation and announces record revenues of US $28.8 billion" (last updated Nov. 7, 2011), http://www.deloitte.com/view/en_GX/global/press/global-press-releases-en/96616a3cfdc82310VgnVCM1000001a56f00aRCRD.htm; Transparency Report 2011 Ernst & Young Global (2011), http://www.ey.com/Publication/vwLUAssets/Global_Transparency_Report_2011/$FILE/Global-Transparency-report-2011.pdf (Ernst & Young worldwide revenue for Statutory Audit and Other Assurance practice, $14 billion); KPMG Annual Review (2010) http://www.kpmg.com/Global/en/WhoWeAre/Performance/AnnualReviews/Documents/KPMG-International-Annual-Review-2010.pdf (KPMG 2010 global revenues by function: Audit practice $ 9.91 billion).

financial reporting interests or concerns. In addition, knowing the key person responsible for an audit could facilitate investigations, simplify research, and aid in evaluations of audit reports. Investigations examining financial misconduct would also be more efficient and effective if they had ready access to the names of the engagement partners responsible for particular audit reports.

Public disclosure would also facilitate evaluation of senior auditors and the audit reports for which they are responsible. Disclosure would enable not only the audit client, but also investors, lenders, regulators, and other financial statement users, to identify and evaluate an engagement partner's experience, expertise, track record, and work for other clients that might present conflict of interest problems.

Third, disclosure of the engagement partner would strengthen both partner and firm accountability for audit failures. Right now, when a company is found to have engaged in misleading or fraudulent accounting, the identity of the engagement partner is not readily apparent; making that information publicly available would facilitate holding particular engagement partners accountable for the audits they oversee. Because both the engagement partner and the public accounting firm would be identified in the audit report, the current proposal intentionally and clearly signals that accountability is intended to attach to both. In addition, as engagement partners are often indemnified by their employers in the same manner as officers and directors of corporations, any lawsuit over inaccurate financial reporting would likely affect the firm as well as the partner, providing an added incentive for the firm to monitor the performance of its engagement partners.

A fourth reason to support the PCAOB proposal is that it would promote auditor independence by highlighting the occasions on which an engagement partner is replaced. The Permanent Subcommittee on Investigations conducted an examination into the collapse of Enron Corporation in 2002, and discovered that when an Arthur Anderson senior partner raised objections to certain Enron accounting practices, he was removed at Enron's request, with no public notice.[11] The Enron investigation demonstrates that even senior auditors can be removed at the request of a client displeased with their accounting advice. Disclosure of an engagement partner's name and any replacement might discourage audit clients from inappropriately pressuring that partner or the audit firm to cooperate with its accounting requests, since any replacement would require public notice and, in turn, raise public questions about the reasons for the replacement. To further support auditor independence, the proposal could be strengthened by requiring registered public accounting firms to file a special report on Form 3 within a few days of replacing an engagement partner in charge of a public company audit.

Still another reason to support disclosure of the engagement partner is that it would bring U.S. audit professionals in line with other U.S. corporate professionals and their international counterparts. U.S. corporate officers already sign their names to a variety of opinions and reports filed with the SEC, including certifications regarding the accuracy of the corporation's financial statements, while a majority of corporate directors sign their corporation's Annual Form 10-K. Attorneys are required to sign a variety of documents filed with federal and state regulators and the courts. In addition, the Federal Reserve already requires bank holding

[11] See, e.g., "The Role of the Board in Enron's Collapse," S. Hrg. 107-511, May 7, 2002, at 5, 582-88.

companies to provide the names of audit engagement partners.[12] The European Union already requires its member states to compel audit reports to be "signed by at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm."[13] The PCOAB would bring U.S. audit professionals into closer alignment with other public company professionals by requiring public auditors to identify their audit engagement partners in the documents which they make publicly available and which they intend to be relied upon by the investing public.

Requiring A Signature. The PCAOB proposal seeks comment on whether, in addition to disclosing the name, an engagement partner should be required to sign the audit report for which the partner is responsible. The proposal should require such signatures. Critics contend that requiring a signature would increase liability for individual audit partners, while decreasing the liability of the audit firm as a whole. Those criticisms fail to acknowledge, however, that through indemnification and insurance agreements, the liability of senior audit partners and their employers are already typically closely intertwined. In addition, professions such as public accounting have long nurtured trust and respect by placing the reputation of their senior professionals on the line in support of their work. An audit report that carries the personal signature of a financial professional would not only strengthen audit quality, transparency, and accountability, but also help restore the personal responsibility critical to a trustworthy and respected accounting profession.

Disclosing Engagement Partners in Annual Reports. Public accounting firms currently file with the PCAOB an Annual Report Form listing each of the audit reports they have issued during the covered year.[14] The proposal would amend the Annual Report Form to also require public accounting firms to identify the engagement partner for each of their listed audits. This proposed disclosure offers an inexpensive, sensible, and effective means for further strengthening public audits.

The proposed disclosure would provide a convenient mechanism for financial statement users to retrieve information about the work assigned by a public accounting firm to its engagement partners over the course of a year. The information would appear in one location and would be easily accessible since the annual reports are posted by the PCAOB on its website. The proposal would facilitate auditor oversight by making it easy for audit clients, investors, lenders, regulators, and others to research the work of a particular engagement partner, including by identifying the other clients the partner serves, evaluating the partner's workload, and making it easier to identify any conflict of interest or disciplinary issues. It would also facilitate oversight of audit firms as a whole by making all of the work assignments made to individual engagement partners available in one location.

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[12] See Form FR Y-9C, "Consolidated Financial Statements for Bank Holding Companies," at 11.

[13] "Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on Statutory Audits of Annual Accounts and Consolidated Accounts," L157 OFFICIAL JOURNAL OF THE EUROPEAN UNION 87, 96, 98 (Sept. 6, 2006), http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:157:0087:0087:EN:PDF .

[14] See PCAOB Rule 2201; PCAOB Form 2 - Annual Report Form, http://pcaobus.org/Rules/PCAOBRules/Pages/Form_2.aspx; "Staff Questions and Answers Annual Reporting on Form 2," PCAOB, at 1, 2 (June 17, 2011), http://pcaobus.org/Registration/rasr/Documents/Staff_QA-Annual_Reporting.pdf (stating "[e]ach registered firm must provide basic information once a year by filing an annual report on Form 2."). The report must be filed by June 30 of each year.

Naming engagement partners in the Annual Report Form would further strengthen audit quality, transparency, and accountability by enabling more efficient and effective research into the work of individual partners and of audit firms as a whole. These disclosures would encourage engagement partners to provide consistent, high quality work, because knowing that the public can obtain one's name only by inquiring about a particular audit is not the same as knowing that the public can easily associate one's name with every audit performed during the year. In addition, the disclosures would help ensure that public accounting firms assign audits to engagement partners with appropriate expertise and availability, and avoid conflicts of interest that might otherwise be hidden from public view. The disclosures could also promote auditor independence by highlighting any engagement partner replacements during the covered year.

Disclosing Third Party Audit Participants. In addition to disclosing engagement partner names, the PCAOB proposal contains an important provision that would require disclosure of third party participants in particular audits. This provision would shine needed sunlight on a little known and difficult to monitor area of auditing, while significantly strengthening audit quality, transparency, and accountability.

When investors see the name of a major auditing firm on an audit report, they may make certain assumptions about the quality of that audit based upon that company's reputation. It is often the case, however, that an accounting firm issuing an audit report has not performed 100% of the underlying audit work, but has instead delegated all or a portion of the work to one or more outside parties, including independent auditing firms or specialists in particular areas. In addition, the accounting firm may have supervised and taken responsibility for the work performed by the third party, or may have contracted to hold the outside party solely responsible for the work it performed. Audit clients, investors, lenders, regulators, and others may be unaware of the extent to which some or all of the work in a particular audit was outsourced to outside parties. They may also be unaware of the identity of the third parties that actually performed the audit work and the extent to which the firm issuing the audit report has relied upon and taken responsibility for that work. Since auditors vary significantly in their expertise, resources, and reputation, knowing which parts of an audit were outsourced and who performed what portions of the work may be critical to assessing audit quality.

The Permanent Subcommittee on Investigations has firsthand experience with the variability of audit work performed by different firms. For example, a year-long investigation conducted by the Subcommittee into illicit money flows involving banks in foreign jurisdictions uncovered a host of problems with foreign auditors, especially those operating in foreign jurisdictions with strong secrecy laws and weak anti-money laundering controls.[15] A number of foreign accountants contacted during the investigation were uncooperative or even hostile when asked for information. A PricewaterhouseCoopers auditor in Antigua serving as a government-appointed liquidator for Caribbean American Bank (CAB), for example, refused to provide copies of its report on CAB's liquidation proceedings, even though the reports were filed in court, they were supposed to be publicly available, and the Antiguan government had asked the auditor to provide the information to the investigation. The investigation also came across evidence of conflicts of interest and incompetent or dishonest accounting practices. In one

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[15] See "Role of U.S. Correspondent Banking in International Money Laundering," S. Hrg. 107-84, March 1, 2001. This investigation took place prior to the establishment of the PCAOB.

instance, an accounting firm verified a $300 million item in a balance sheet for British Trade and Commerce Bank that, when challenged by Dominican government officials, was never substantiated. In another instance, an accounting firm approved an offshore bank's financial statements which concealed indications of insolvency, insider dealing, and questionable transactions. While the above examples involved foreign auditors reviewing the records of local banks and not U.S. publicly traded corporations, this record of poor performance and poor cooperation with U.S. inquiries does not inspire confidence.

The recent auditing failures cited earlier also do not inspire confidence. Accounting scandals involving Olympus Corp., Satyam Computer Services Ltd, and Parmalat, for example, involve foreign auditors that share a common brand with one of the Big Four accounting firms, but may not use the same auditing standards, have the same familiarity with U.S. accounting requirements, or employ auditors with appropriate expertise. It is also not uncommon for a Big Four accounting firm to refuse to accept liability for faulty audit work performed by a foreign affiliate, even when sharing a common brand. Audit clients, investors, lenders, regulators, and others ought to be able to determine the extent to which affiliated or unaffiliated third parties are performing audit work, the extent to which the public accounting firm supervised that work, and the extent to which the public accounting firm shares liability for any problems arising from the audit work performed by a third party.

Another key issue is the extent to which a third party performing audit work falls under PCAOB jurisdiction, cooperates with PCAOB and SEC information requests, and undergoes PCAOB inspections to ensure audit quality. Auditors outside the United States may not have agreed to undergo PCAOB oversight, even if they audit a company that trades on a U.S. stock exchange or holds a U.S. license as a broker-dealer. Alternatively, the firm may have agreed to PCAOB oversight, but their governments may not permit PCAOB inspections or exchanges of information. In a recent investigation into alleged accounting fraud affecting U.S. investors of Longtop Financial Technologies, for example, China has apparently ordered the Shanghai affiliate of Deloitte & Touche not to provide documents to the PCAOB or SEC or to undergo PCAOB inspections.[16] A 2007 PCAOB report also criticizes Deloitte's quality controls and the manner in which it works with foreign affiliates operating under a common brand, noting that Deloitte partners often had no way to properly assess whether a foreign affiliate's personnel were adequately familiar with American accounting and auditing rules.[17] Audit clients, investors, lenders, regulators, and others should be able easily to determine whether audit work is being performed by auditors that operate outside of PCAOB oversight, have poor track records, or have a history of disciplinary problems or other misconduct.

The PCAOB proposal is to be commended for requiring the disclosure of the names of third party participants in an audit. The proposal should be further strengthened by requiring the public accounting firm issuing the audit report to disclose the nature and extent of the work

[16] See, e.g., SEC v. Deloitte Touche Tohmatsu CPA Ltd., Case No. 1:11-MC-00512 (D.D.C. filed September 8, 2011); In re Longtop Financial Technologies Ltd., Case No. 3-14622 (Nov. 10, 2011), http://www.sec.gov/litigation/admin/2011/34-65734.pdf; "Deloitte's Quandary: Defy the S.E.C. or China," New York Times (Oct. 20, 2011), http://dealbook.nytimes.com/2011/10/20/deloittes-quandary-defy-the-s-e-c-or-china/.
[17] "Report on 2007 Inspection of Deloitte & Touche LLP," PCAOB Release No.104-2008-070A, at 1, 3, 17 (May 19, 2008), http://pcaobus.org/Inspections/Reports/Documents/2008_Deloitte.pdf.

performed by each third party; whether it supervised and shares financial responsibility for the audit work performed by each such party; and whether each such third party is subject to PCAOB oversight and has undergone PCAOB inspection.

Thank you for the opportunity to comment on this matter.

Sincerely,

Carl Levin

Carl Levin
Chairman
Permanent Subcommittee on Investigations

GILBERT F. VIETS
2105 North Meridian Street, Suite 400
Indianapolis, Indiana 46202

January 23, 2012

Mr. J. Gordon Seymour
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Docket 029: Improving Transparency through Disclosure of Engagement Partner and Certain Other Participants in Audits

Dear Mr. Seymour:

Board proceedings on Docket 029 raise a question about the objectives and effectiveness of any solution that may result. My concern is with the emphasis placed on protection of audit partners from liability, rather than what audit environment will produce correct financial statements.

The specific questions in the Docket refer to Section 11 of the Securities and Exchange Act of 1933, Section 10(b) and Rule 10b-5(b) of the Securities and Exchange Act of 1934 and to existing law in various states. Certainly no one, including me, suggests that your amendments to audit standards should violate any laws. However, your proposal seems to seek regulation that avoids the intent of existing law to hold people and firms responsible for their work. In following this path, you give up leverage that helps accomplish your mission.

Your mission is *"…to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports…"* Stick to the mission. You should certainly assure your standards do not force auditors to break existing laws. But, if you determine that audits will be significantly more effective if the audit partner and others are personally identified to investors, you should require it to be done. Why would you not? If you think the law and courts are wrong and auditors are too exposed, there is another forum for that to be considered.

I had not intended to respond to this docket. My own experience as an auditor, board member, audit committee chair and meager investor suggests that disclosure of personal names of audit partners or staff is not necessary and ranks far down the list of things that will help solve problems we have had this past decade in getting correct financial statements. Many express a similar view. However, I see no harm in the proposal and looked forward to the responses of others.

But, I am troubled at the predisposition here toward protecting auditors. During the vast majority of time since the passage of the Securities and Exchange Acts, and the required audits of public company financial statements, permitting those audits to be done by private side auditors, the general partnership organization of auditors assured personal responsibility of every partner for their own work and the work of their partnership. That environment did not restrict growth of the profession or quality of college graduates who eagerly sought highly respected professional careers in the general partnerships.

When the environment changed in the latter part of the 1990’s, and audit firms were permitted to be limited liability entities, personal responsibility distorted to consideration of financial exposure, indiscernibly controllable by private LLP’s; some auditors, both individuals and firms, began measuring their limited financial risk against significant financial rewards of walking on the edge of correct financial statements and true independence. That new environment is a concern of many and should be for the Board.

We seem to be entering some new era similar to elementary T-ball where we don’t want to embarrass anyone with their strike out. Parents and kids love T-ball, just as audit firms and their partners love to have freedom from exposure, as their responses to Docket 029 show. But, this is the Majors.

Please consider these concerns in your deliberation of Docket 029 and in future proposals relating to audit quality and auditor objectivity. I urge you to focus on what makes financial statements right and audits effective, ignoring factors that should be argued in other forums.

I apologize for responding late to this proposed amendment, but I hope you will consider these thoughts. I notice following public response to Docket 037, a number of responses were accepted after the cutoff date, so it occurred to me you may accept this tardy response on Docket 029. If you cannot, I understand. In that case, I would appreciate your circulating this letter as general public correspondence to the members of the Board and appropriate Staff.

Thank you all for your efforts in this difficult search for the “best way to do it.”

Sincerely,

Gilbert F. Viets

March 17, 2014

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D. C. 20006-2803

Via email to comments@pcaobus.org

Dear Board Members:

The Auditing Standards Committee of the Auditing Section of the American Accounting Association is pleased to provide comments on the PCAOB Rulemaking Docket Matter No. 029; PCAOB Release No. 2031-009: Proposed Rule on Improving the Transparency of Audit: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit.

The views expressed in this letter are those of the members of the Auditing Standards Committee and do not reflect an official position of the American Accounting Association. In addition, the comments reflect the overall consensus view of the Committee, not necessarily the views of every individual member.

We hope that our attached comments and suggestions are helpful and will assist the Board. If the Board has any questions about our input, please feel free to contact our committee chair for any follow-up.

Respectfully submitted,

Auditing Standards Committee
Auditing Section – American Accounting Association

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Chair – Urton Anderson, University of Kentucky, phone (859)218-1788, email: urton.anderson@uky.edu
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General Comments

The Committee commends the PCAOB ("the Board") for shifting the primary focus from 'accountability' (concept release 2009-005) to 'transparency'.[1] The Committee believes firm disclosure of the names, locations, and extent of participation of others has a far greater potential to be investor decision relevant than the disclosure of the name of the engagement partner. The following presents a number of specific comments or suggestions, organized along by the questions posed by the Board in concept release 2013-009.

Questions for Commenters (Responses to Selected Questions

1. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

> Engagement Partner's Name: Although the Committee is not unanimous on this issue, the majority believed that the disclosure of the name of the engagement partner will be of limited use to investors, and may be potentially harmful, when making investment decisions sans extraordinary circumstances, both initially and over time.
>
> Audit committees evaluate carefully the qualities of current and potential engagement partners, firms monitor engagement partner history closely and utilize that information to manage risk to the firm, and the Board uses firm-provided historical information about individual partners to select audits to inspect. Metrics beyond the name of the engagement partner are needed to make such consequential decisions.
>
> Investors are currently privy to the identity of an engagement partner only by chance or through specific inquiry. Even if they were privy to the partner's name, they are not privy to the additional metrics needed to assess a partner's ability to deliver a quality audit. It is not obvious to Committee members that the additional relevant, consequential information about an engagement partner that would affect investor investment decisions is publicly available or will become publicly available without additional regulatory demands. Such additional regulatory demands appear unlikely. See response to question 3.
>
> The Committee is not aware of research that directly addresses firm disclosure of the name of the engagement partner in the U.S. market. Research on audit firm characteristics suggests firm size and firm industry specialization is used by U.S. market participants (Dunn 1999; DeFond and Subramanyam 1998; Eichenseher et al. 1989; Knechel et al. 2007; Menon and Williams 1993; Teoh and Wong 1993).

[1] Addressing partner accountability through firm disclosure of the name of the engagement partner implies that existing mechanisms at level of the firm, the audit committee, the exchanges, the PCAOB, and the SEC are insufficient to motivate partner accountability. The Committee believes this is unlikely.

In non-U.S. markets, Chi et al. (2011, working paper) report that the 'number of years as a signing partner' is associated with a modest reduction of extreme negative discretionary accruals in the Taiwanese market. They also find the partner tenure with a client is negatively associated with bank loan pricing. Knechel et al. (2011, working paper) report that compensation policies that align partner incentives with shareholder incentives positively affect audit quality in the Swedish market. It is not clear how these modest results obtained in small markets inform policy for the U.S. market.

Information about Other Participants. For the most part we assume this would be other CPA firms or specialized experts. We believe that such disclosure, particularly when combined with an indication of the amount of effort they contribute to the audit would give investors potentially useful insight into the audit process and subsequently audit quality. Given these participants are likely to take part in a number of different audit engagements and potentially be used across audit firms the conclusions that could be drawn regarding reputation would be potentially less misleading than what could be inferred from information about a single partner who would be involved in a limited set of engagements over a couple of years or even over their career.

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

Audit firm reputation matters, both to shareholders and the audit committee that retains the firm. Given the pivotal role of the engagement partner in delivering quality professional services, any significant variance in audit quality among engagements within a firm would likely be attributable in part to the engagement partner. Hence the audit committee's careful evaluation of the proposed engagement partner. Though the Committee is doubtful firm disclosure of the name of the engagement partner is investor decision relevant, should the Board conclude such disclosure is relevant for investor decision making one would infer its believe that value maximizing shareholders too would use such information when asked to ratify a company's choice of audit firm. As noted above such use may or may not lead to better audit quality.

Likewise, information about other participants and the extent to which they participate would no doubt be used by shareholders. This may be particularly true when large portions of the effort is provided by other participants. To the extent that audit firm reputations drives how shareholders vote, for engagements with significant amount of other participants the percent voting for ratification would likely to drop. This might induce audit firms to use less outside participants which if outside participants were being used because of need expertise could reduce audit quality. If the use of outside participants is driven by cost, it might lead to an increase in audit fees, or if fees are constrained by market forces, to lowering audit quality by lessening the overall amount of effort.

3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

> We believe developing such databases in some cases would provide useful information to investors. As is the case with any professional service provider, an audit partner's reputation for the quality of his/her prior work matters. Specifically, a recent working paper Chi, Lisic, Myers, and Pevzner (2014) suggest that current and prospective audit clients care about the audit partner's history of audit failures. An audit partner's reputation for prior client misstatements is informative about current audit quality, and an audit partner's reputation for past client misstatements is associated with a larger decline in the audit partner's market share. Importantly, the informativeness of prior client misstatements about current audit quality is mitigated for partners with more overall audit experience and with more industry-specific experience. These findings suggest that 1) audit partner's history (restatement history at least) provides useful information to the investors about the audit quality of the partner, and 2) this effect varies with the audit partner's experience and hence, industry expertise (and other experience) information should be included in the database too. Similarly, we believe the partner's involvement in disciplinary proceedings and other litigation would be informative about the partner's audit quality.

b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

> We believe this database would provide audit committees with relevant benchmarks against which the engagement partner could be compared. A caveat is that the audit committees should keep in mind that auditors specialize in certain areas/industries. If an audit partner specializes in risky industries, he/she should be compared with the peers who also specialize in risky industries. Comparing him/her with the entire database could provide misleading information. However, developing such a database is a useful first step and further refinement will come later.

4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

> Similar to our comment on Question 3, we believe development a similar database about other participants in the audit would provide useful information to the investors about the quality of these participants. In fact this information might

ultimately be much more useful than that of the database about audit partners as it would be comparable across more engagements and has additional information about relative effort.

5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

For the reasons articulated in our comment to Questions 3 and 4, we believe the ability to research publicly available information about engagement partner or other participants in the audit is important, particularly publically available information about other participants, because it could potentially provide useful information to the investors about the audit quality. In addition, with this publicly available database, independent academic researchers can conduct additional studies to validate or invalidate Chi et al.'s (2014) conclusions and obtain additional understanding of the audit process which could lead to improved audit quality.

8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

Audit partners are generally not the lead partner on a large number of engagements. Consequently, it is quite possible that incorrect inferences could be drawn about the quality of an individual audit based on the identity of the engagement partner. The existence of a myriad other factors that influence audit quality exacerbates the issue.

Other potential unintended consequences include:

- Disclosure might adversely affect attracting and retaining top talent in the profession.
- Disclosure might encourage defensive auditing, increasing the costs of audits.
- Partners might have an incentive to shed higher risk clients as a means of maintaining their 'audit quality profile'. This avoidance of risky clients is analogous to the under-investment problem when CEOs are evaluated solely on ROA; the CEO may forgo positive NPV projects because it brings down their overall ROA. Consequently, more senior partners may be unwilling to be the lead partner on a particular client when, in fact, it is precisely that type of client that would benefit most from that partner's efforts.
- The release notes security risks and increase liability arising out of increased transparency are modest, likely affecting few partners. That is little comfort to the few.
- Disclosure might engender direct calls and correspondence from shareholders, investors, analysts, activists, journalists, and other interested parties. This raises concerns about what the engagement partner may disclose, if anything. There are also concerns about harassment and more

generally attempts to contact or interact with partners in ways that are not productive or appropriate.

A recent paper, Lambert, Luippold and Stefaniak (2012, working paper), examines the unintended consequence partner name disclosure could have on audit partners' incentives and independence. They proposes that partner name disclosure will result in a fusing of the individual partner's reputation with the audit client. This fusing may then shift the partners' (real or perceived) incentive structure, which in turn has implications for audit partner independence. In an experimental setting, the researchers find that investors are less likely to invest in a peer firm linked to a restating firm via partner disclosure, particularly in the case of investors less experienced working with or preparing financial statements.

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

The Committee is not aware of research that directly addresses firm disclosure of the name of an engagement partner on partners' sense of accountability. That said, should such disclosure foster a partner's sense of personal accountability for an audit, existing research suggests a resultant reduction in information biases and enhanced consensus, effort, attention, and perhaps quality of audit documentation (Johnson and Kaplan 1991; Kennedy 1993; Brazel et al. 2004; DeZoort et al. 2006).

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

In our committee's response to the 2011 proposal, we argued for a 10% disclosure threshold because of concern with investors being overloaded with information. However, based on the Board's staff analysis reported pages A3-17 to A3-18, we support a 5% threshold.

22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

Should the Board mandate that firms disclose the name of an engagement partner in the auditor's report, the Committee believes it is also useful require disclosure of the engagement partner name in Form 2. The convenience to investors of retrieving information about all of a firm's engagement partners (to assess firm quality) and all engagements of a single partner speaks for itself.

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March 17, 2014

Sent via e-mail to comments@pcaobus.org

Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.,
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Re: *Rulemaking Docket Matter No. 029: Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits*

Dear Ms. Brown:

On behalf of the American Federation of Labor and Congress of Industrial Organizations (the "AFL-CIO"), I appreciate the opportunity to comment to the Public Company Accounting Oversight Board (the "PCAOB") regarding its proposed auditing standards on improving the transparency of audits, PCAOB release No. 2013-009 dated December 4, 2013. The proposed amendments will require disclosure in the auditor's report of the name of the engagement partner and disclosure in the auditor's report of the names, locations, and involvement of other entities that took part in the audit.

The AFL-CIO is the umbrella federation for U.S. labor unions, including 56 unions representing 12.5 million union members. Union-sponsored and Taft-Hartley pension plans hold more than $540 billion in assets. Union members also participate directly in the capital markets as individual investors and as participants in pension plans sponsored by corporate and public-sector employers. Like all investors, union members and their pension plans will benefit from receiving more information about audits and the auditors whose work is vital to preventing accounting fraud.

The AFL-CIO commends the PCAOB's proposal to improve audit transparency by requiring disclosure of the names of audit engagement partners and the names and locations of independent audit firms and others who took part in the audit. This additional disclosure will help users of financial statements become better informed about the quality and reputation not only of the audit firm but also of the engagement partner and any third parties who are responsible for conducting the audit. In our view, these improvements to audit transparency are long overdue.

The disclosure of engagement partners and the names, locations, and involvement of other entities that took part in the audit will enhance proxy voting by shareholders on audit firm ratification votes. Shareholder ratification of the company's selection of its auditor is an important corporate governance safeguard to help ensure effective audits. With the proposed disclosures, shareholders will be better able to evaluate whether engagement partners and any third parties participating in the audit have a history of financial restatements, disciplinary hearings, or litigation.

While we are pleased the PCAOB has proposed requiring the name of the engagement partner to be disclosed in audit reports, we believe the disclosure lacks the weight of requiring the engagement partner to sign his or her name on the auditor's report in addition to the audit firm's name. Other professions such as attorneys personally sign their work product. We find the absence of the engagement partner's signature difficult to understand given that chief executive officers and chief financial officers must personally certify company financial statements.

In conclusion, the PCAOB's proposed amendments will benefit investors by making audits more transparent. Disclosure of engagement partners and the role of third parties who take part in audits will provide valuable information to those who rely on financial statements. For example, these disclosures will aid the development of an information clearinghouse listing any sanctions, suspensions and litigation against engagement partners or other third parties involved in conducting audits. Investors can already obtain this type of information about brokers and investment advisers.

Thank you again for the opportunity to comment on the proposal. If you need any additional information, please contact me at 202-637-5152 or brees@aflcio.org.

Sincerely,

Brandon J. Rees
Acting Director, Office of Investment

Improving the Transparency of Audits:

Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Proposals issued for comment by the Public Company Accounting Oversight Board (PCAOB Rulemaking Docket Matter No. 029)

Comments from ACCA
3 February 2014

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 162,000 members and 428,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 89 offices and centres and 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

www.accaglobal.com

Further information about ACCA's comments may be obtained from:

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ACCA

ACCA welcomes the opportunity to comment on the *Proposed Amendments to PCAOB Auditing Standards to Provide Disclosures in the Auditor's Report of Certain Participants in the Audit* (PCAOB Rulemaking Docket Matter No. 029).

Members of the ACCA Global Forum for Audit and Assurance[1] have considered the matters raised in the proposals and their views are represented in the following.

Our comments draw upon our world-wide membership, which includes significant numbers of members working in all aspects of the financial reporting supply chain in a wide range of industries, the public sector and public practice.

GENERAL COMMENTS

Audit has a very important place in society. It provides public value through increasing confidence in financial reporting. For global capital markets this facilitates the efficient allocation and use of capital. The report of the auditor is the most visible output of the audit process.

Over the last five years, ACCA has participated in research and outreach events that have consistently confirmed the appetite of investors for additional disclosures from auditors.

We welcome, therefore, the initiative of the PCAOB to improve the auditor's report in terms of its usefulness and relevance to shareholders and investors. These reproposed amendments to PCAOB standards should be considered in the context of current wider efforts, not least of the PCAOB itself, to improve audit transparency and enhance the decision making of investors.

There is a tension between increasing the information in the auditor's report and the length of that report: the longer a report becomes, the greater is the likelihood that it contains information that is not significant for users.

It is the responsibility of the standard setter (if not laid down in legislation) to interpret the needs of a theoretical construct – the intended users of the auditor's report – and to set appropriate standards to meet a further theoretical construct – the reasonable needs – of the intended users. This judgement of the standard setter must also be informed by the societal value of meeting those needs and the estimated cost of doing so. This balancing of value against cost is not just in dollar terms; it must encompass all the wider factors relevant to financial reporting and the operation of capital markets.

[1] http://www.accaglobal.com/en/research-insights/global-forums/audit-assurance.html

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The reasonable needs of the intended users of the auditor's report will change over time because the actual needs of actual users will change; making it necessary to re-evaluate the (operationalised) theoretical construct. Indeed the actual users may also change, making it necessary to revaluate that theoretical construct– the intended users of the auditor's report. The responsibility of the standard setter is to monitor factors relevant to determining the theoretical constructs that underpin the standard setting process and to adjust those constructs and the resulting standards as necessary.

ACCA believes that the events of recent years constitute a significant shift in actual needs of actual users. These are challenging times for standard setters and it must be recognised that, however much effort and expertise is employed, however much research is carried out and assessed, however much consultation and education is done, the standards produced may not always meet all the information needs of all stakeholders. And if this is the case today, it may be even more so tomorrow, because circumstances change faster than necessary due process can accommodate.

ACCA strongly supports the use of standards that are global and that are principles-based. The reasons for this that are relevant to the current consultation are set out below.

Concerning global standards – for significant capital markets the intended users of the auditor's report and their reasonable needs should be determined on a global basis. The current degree of globalisation of capital markets and the speed of communication have rendered other approaches obsolete.

Concerning principles-based standards – their flexibility ensures that, to some extent, the same standard can remain relevant as circumstances change. A standard full of bright line rules has a much shorter shelf life.

As we said in our recent response to Rulemaking Docket 034: *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments*, 'recognising that the IAASB standards have to be written so that they may be applied in many jurisdictions and that the PCAOB standards reflect the requirements of the U.S. federal securities laws and rules, we nevertheless continue to recommend that the PCAOB develops standards with a view towards long-term convergence with those of the IAASB.'

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In order to avoid differences being introduced when both PCAOB and the IAASB are proposing changes to auditor reporting standards, we support the inclusion in the PCAOB standards of a requirement to identify the engagement partner but we opposed disclosure of other participants in the audit.

Many of the other arguments, for or against the conclusions we reach, are well presented in the consultation document and the PCAOB is well aware of them and indeed the differences in view between, for example auditors and investors. We see little point in revisiting those arguments here.

We caution instead that recent work on audit quality has highlighted its many-faceted nature and the current fragmentation of our knowledge of the drivers of quality and their potential relevance to, for example intended users of the auditor's report (if there were to be associated transparency). The last few years have yielded an impressive number of relevant research papers.

We do not believe that at this time investors have developed their own thinking sufficiently to determine their needs for transparency of the auditor, the particular audit and the financial and non-financial reporting (seen through the auditor's lens). Standard setters should not endeavour to solve problems too precisely when the subject matter is relatively undeveloped. A debate about whether a threshold for disclosure is 3 per cent or 5 per cent is much less important than achieving a workable and globally consistent consensus.

SPECIFIC COMMENT

Section VII of the Release sets out 25 questions for commenters. In view of our general comments and the fact that some of the questions are best answered by other stakeholders we only answer question 1.

Question 1 Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information?

For the reasons set out in our general comments we believe that disclosure of the engagement partner's identity would be useful but information about other participants would not.

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Please note that the comments expressed herein are solely my personal views

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Chris Barnard
Actuary

30 January 2014

- **Release No. 2013-009**
- **PCAOB Rulemaking Docket Matter No. 029**
- **Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit**

Dear Sir.

Thank you for giving us the opportunity to comment on your release on Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit. You are reproposing amendments to your standards that would improve the transparency of public company audits. The amendments would require (1) disclosure in the auditor's report of the name of the engagement partner and (2) disclosure in the auditor's report of the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and the locations and extent of participation of other persons not employed by the auditor that took part in the audit.

I strongly support the proposed amendments. These will definitely increase transparency and accountability, and should therefore act to improve the engagement partner's standard of professionalism, due care and professional scepticism. Greater disclosure is the way forward, and there are no compelling arguments against this trend.[1] My comments on this release are in principle the same as my comments on the previous version of the release. For completeness I enclose the comment letter that I submitted to you in October 2011 on the release on Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2.

[1] For example the International Auditing and Assurance Standards Board (IAASB) recently proposed a requirement for firms to disclose the name of the engagement partner in the auditor's report of a listed entity. See IAASB exposure draft, Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing, July 2013, and my comment letter thereon.

Please note that the comments expressed herein are solely my personal views

Yours faithfully

C.R.B.

Chris Barnard

Please note that the comments expressed herein are solely my personal views

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17 October 2011

- **Release No. 2011-007**
- **PCAOB Rulemaking Docket Matter No. 029**
- **Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2**

Dear Sir.

Thank you for giving us the opportunity to comment on your release on Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2. You are proposing amendments to your standards that would improve the transparency of public company audits. The proposed amendments would: (1) require registered public accounting firms to disclose the name of the engagement partner in the audit report, (2) amend the PCAOB's Annual Report Form to require registered firms to disclose the name of the engagement partner for each audit report already required to be reported on the form, and (3) require disclosure in the audit report of other independent public accounting firms and other persons that took part in the audit.

I strongly support the proposed amendments. These will definitely increase transparency and accountability, and should therefore act to improve the engagement partner's standard of professionalism, due care and professional scepticism. It is interesting to consider the alternative, or current situation. What are the advantages of not disclosing the engagement partner in the audit report? Why should the engagement partner, who leads and is largely responsible for the audit, be anonymous? The release provides some arguments against disclosure here, but these seem mostly spurious and / or specious. For example "some auditors suggested that the identity of the engagement partner would not be useful to investors".[1] This is flatly refuted by the investors themselves,[2] and we should give more credence to the actual views of investors, rather than auditors' perceptions thereon.

I have some specific comments, which I will address in answer to your specific questions.

Answers to specific questions raised by the PCAOB

1. Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?

Yes. It would be more transparent, and easier for investors to contact the engagement partner. The engagement partner would be more accountable, and this should act to improve the engagement partner's standard of professionalism, due care and professional scepticism.

2. Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?

Disclosing the name of the engagement partner should increase accountability. Requiring a signature should increase accountability even more. This is human nature.

3. Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?

I believe that the proposed approach provides the right balance here. The name of the engagement partner would be disclosed, and the audit firm would sign the report.

4. Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?

Yes. The proposed disclosure is quite clear.

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[1] See release, page 9.
[2] See release, page 4: "Investor members of the SAG generally supported a signature requirement"; and "most IAG members expressed support for such a requirement". See also page 21: "Investors have requested greater transparency about who is performing the audit and how much of the audit they have performed". There are other examples in the release.

5. Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?

Yes. The proposed disclosure is quite clear.

6. Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?

Many professionals, such as doctors, lawyers, accountants and actuaries have to sign reports containing findings, opinions and judgements, which may be controversial. I am not aware of any unusual security risks in this regard.

21. Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?

Yes. Investors have stated a preference for disclosing this information.[3] *Again, there is no reason not to disclose the information.*

22. Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?

The proposed requirements are quite clear.

23. Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?

Yes, the proposed requirements are sufficiently clear. I agree that the name of the firm or person that is disclosed should be based on whom the auditor has the contractual relationship. This is reasonable, and clearly appropriate.

24. Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?

I do not believe that there will be any adverse impact on competition. We are only disclosing the practical realities here.

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[3] See release, comments at page 21.

25. Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?

I do not foresee major challenges in this regard.

26. Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?

Yes, I support the total hours approach. This best represents the quantum of work actually done, and is a superior measure compared with monetary apportionment.

27. What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?

No insurmountable challenges. Recording hours is common practice worldwide.

28. Should the Board require discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosures?

I would generally support such discussion as part of the disclosure, but only at the discretion of the audit firm.

Yours faithfully

Chris Barnard

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January 6, 2014

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Rulemaking Docket No. 029

Board Members:

These are my comments on PCAOB Release No. 2013-009, "Improving the transparency of audits: proposed amendments to PCAOB auditing standards to provide disclosure in the auditor's report of certain participants in the audit." In summary, the Exposure Draft (ED) would require disclosure in the auditor's report of (1) the name of the engagement partner, and (2) names, locations and extent of participation of other accounting firms and other persons that took part in the audit. My comments are derived primarily from perspectives gained from serving as chairman of the audit committee for five large public companies over the past twelve years, but also from my earlier 26 years in public accounting audit practice serving many SEC registrants.

In summary, I do not support naming the engagement partner in the auditor's report. It is not meaningful information to users; the forthcoming work on Audit Quality Indicators promises to produce more useful data. Further, the notion that naming the engagement partner will somehow increase his/her accountability is simply wrong. I do support the disclosure of "other parties" although I believe the disclosure needs to be supplemented in order to clarify the signing firm's oversight responsibilities. Otherwise, it could be more confusing than informative, particularly when the "other parties" share a common name with the signing firm.

My reasoning for these positions is presented in the following two major sections of this letter.

Naming the Engagement Partner

What is the real objective of naming the engagement partner and will it be achieved? - As noted in the description of the ED, the Board believes that naming the engagement partner in the auditor's report will "improve the transparency of audits." The Introduction goes on to say that the Board believes this information "would be useful to investors and other financial statement users and would be consistent with the Board's mission to further the public interest in the preparation of 'informative, accurate, and independent audit reports.'" The Release describes ways in which service providers might begin to gather information on engagement partners in the future that investors and other users could find helpful. Enhanced user information appears to be the principal reasoning for the Board's conclusion that the engagement partner's name should be required. In the words of Board member Jeanette M. Franzel, "Today's release states that the primary benefits of the current proposal pertain to disclosure, or transparency."

However, on page 5 the ED states, "The Board also recognizes that many investors as well as some other commenters believe that these measures would prompt engagement partners to perform their duties with a heightened sense of accountability to the various users of the auditor's report." Again quoting Ms. Franzel, "The release also suggests that such disclosure may create an incentive for auditors to voluntarily take steps that could result in improved audit quality." Later she notes, "Today's release does not explain why the Board has changed its objectives for the reproposal from accountability to disclosure of useful information for investment decisions (as names are collected over time and combined with other unspecified information). And, with those changed objectives, the Board is now in a position to surmise how, or hope that, such information may be compiled and made useful over time."

This change in objective is even more troubling given concerns raised at an earlier date by then Board member Dan Goelzer regarding the appropriate role of the PCAOB. He questioned whether naming the engagement partner was more of an SEC proxy disclosure issue than a PCAOB auditing matter. In his statement at the meeting at which the earlier ED was adopted, Mr. Goelzer stated, "The partner's name may be relevant to the shareholder vote on selection of the auditor. However, the disclosure requirements of the federal securities laws, including the proxy rules, are administered by the Securities and Exchange Commission. Unless engagement partner disclosure can be directly linked to improving audit quality, or to promoting understanding of the financial statement audit or of the Board's inspection program, the issue would seem to fall in the SEC's bailiwick."

Chairman Doty appeared not to emphasize a single objective for naming the engagement partner in his remarks at the AICPA National Conference on SEC and PCAOB Developments on December 9, 2013. While he began his comments on "audit transparency" by stating that "Investors have long asked for the names of engagement partners to be disclosed, in order to give them more information about the auditor," the rest of his comments on that topic focused largely on the "quality improvement" objective. For example, "... it holds the promise of improving audit quality by sharpening the mind and reminding auditors of their responsibility to the public." And, "In many fields, disclosure – Justice Louis Brandeis called it 'sunlight' – has given numerous fields and professions the information they need to see and then remedy a problem."

I believe an astute assessment of the purpose of disclosing the name of the engagement partner was contained in the comment letter on the earlier ED of Professor James L. Fuehrmeyer, Jr. of the University of Notre Dame. Professor Fuehrmeyer, a former senior audit partner with Deloitte & Touche, included the following excellent analysis in his comment letter dated December 13, 2011, which I believe applies just as much to the current ED:

> The Proposed Amendments appear to reflect the notion that the investment community should grade the audit in the same way rating agencies grade securities. The Board should not expect individual investors to grade auditors. We already have a process in place to evaluate auditors and audit firms and that process falls directly under the responsibility of the registrant's audit committee. That committee is directly charged under the Sarbanes-Oxley Act with responsibility for "the appointment, compensation and oversight of the work of any registered public accounting firm employed by that issuer..." Audit committees are charged with evaluating and selecting auditors. The Proposed Amendments would undermine that process.
>
> The Proposed Amendments place too much emphasis on the role of one individual. Audits are conducted by teams of individuals; the largest audits have numerous partners, managers and staff comprising the audit team. While the signing partner has overall responsibility and signs the opinion on

> behalf of the firm, it's not an individual project with technical support. In many cases that lead partner is not the only key player in the conduct of the audit. For example, a partner supervising the audit of a major corporation with highly material exposure for asbestos related claims or supervising the audit of an insurance company would rely extensively on the work of the actuarial specialists who are part of those audit teams. The lead partner on the audit of a financial institution engaged in loan originations and securitizations would depend on the work of financial instrument specialists in the valuation of individual deals. Lead partners must rely on specialists in many areas including business valuation, international taxation, management information systems, government contracting, medical claims evaluation, appraisal of real estate, translation from other languages into English, computer system security, engineering and a host of others. Many engagements use multiple specialists and no one on the Board would expect the lead partner to be a specialist in all areas. Evaluation of the quality of the firm's performance as the auditor includes evaluation of its capabilities in all of the many areas of specialization that pertain to the registrant's business. That evaluation is not captured in the disclosure of a single name or in the disclosure of the countries of origin of offices participating in the conduct of the audit. However, all of that information and more is routinely considered by audit committees as they fulfill their responsibility to oversee the independent auditor.

I fully agree with Professor Feuhrmeyer's analysis and his point was reinforced by a January 9, 2012 letter from The Center for Capital Market Competitiveness on the earlier ED. Rather than improving audit quality, which is at least a secondary (if not implicit primary) objective for this new disclosure, the Center believed the disclosure could have the opposite effect. "It is also problematic that the PCAOB continues to move in the direction of expecting engagement partners to somehow build their own individual reputations for audit quality, independent of their firm's reputation, undermining accountability in the audit process and harming investor protection."

The PCAOB suggests that naming the engagement partner could provide valuable information to investors as third parties collect that information over time and collate it with information on restatements, going concern opinion modifications, enforcement actions, and individual-specific data such as education, awards, publications, etc. One question that might be asked is if that is such a great idea, why isn't it being done now? For many years the identity of the engagement partner has been known by his or her appearance at the company's annual shareholders meeting. If gathering and analyzing these relationships were truly useful to investors, in today's information age some enterprising businessperson probably should have already started gathering the data. Granted, it would be a lot easier to do so should the names simply be listed in the auditor's report but there won't really be any new information provided.

In thinking about how these data might be gathered and used, I urge the Board to consider the following. At least for the largest accounting firms serving public companies with the greatest market capitalizations in which there is the most investor interest, it would be unusual for an individual to become an audit partner before his or her early 30's. And it probably would be unusual for such a person to immediately become an engagement partner upon being admitted to the partnership, at least for a client that has a large market capitalization. And given an approximate age 60 retirement date for these individuals, they would likely have only approximately five "rotation opportunities." Of course, it is quite possible that many of them could serve more than one public audit client at the same time but those clients would generally then be smaller and of less investor interest. And the last rotation would be of no information consequence as the partner would retire after completing service on that engagement.

Thus, the data being gathered could reflect service on a relatively small number of clients for each partner over a twenty-year period – a fairly limited data base on which to draw any meaningful conclusions. Assuming none of the "negative factors" mentioned in the ED are present (see discussion below), there might be little information of consequence gathered about such individuals that would be of relevance to investors, except, perhaps, information about previous service for very specialized industry clients.

Rather than supposing that data gatherers would begin to accumulate this information over time and that it might be meaningful, wouldn't it make sense to first ask some of the accounting firms to do a little "field testing" to see how much information could be accumulated for a sample of partners? (Perhaps the PCAOB already has that information in its own records and could do so – I'm not familiar with the Board's records on engagement partners, etc.) If some data could be produced from such an experiment, it might then be shown to the users who claim they would find this to be meaningful in their investment decisions and they could be asked how it would actually be used.

Would audit committees find this information useful? – In addition to stating that some users have called for disclosure of the name of the engagement partner, the

PCAOB seems to think that some audit committee members would find this new disclosure useful. For example, on page 8 of the ED the Board states in its discussion of the comment letters on the earlier ED, "Others, such as some audit committee members and corporate officials, as well as an association of European auditors, shared the investors' views and expressed the view that naming the engagement partner in the auditor's report would be beneficial (my emphasis)." This led me to review the comment letters on the 2011 Release.

I found only two comment letters from individuals who identified themselves as having been audit committee chairs.

> Letter No. 11 from Mr. Jack Henry stated in part: "Your proposals for mandatory rotation and identification of the signing partner both strike me as solutions looking for a problem to solve. Neither proposal appears to be based on empirical evidence that the current state is broken and would be improved by either proposal." His letter goes on to state, "Identifying a signing partner is contrary to the way audits are performed. They are done by teams and the teams include more than a single partner. Major decisions are made by national offices, not signing partners." Mr. Henry noted that he had been with Arthur Andersen for 34 years before retiring from that firm.
>
> Letter No. 41 from Mr. Gilbert F. Viets stated in part, "My own experience as an auditor, board member, audit committee chair and meager investor suggests that disclosure of personal names of audit partners or staff is not necessary and ranks far down the list of things that will help solve problems we have had this past decade in getting correct financial statements. Many express a similar view. However, I see no harm in the proposal and looked (sic) forward to the responses of others."

Frankly, it is disappointing that so few audit committee representatives commented on the earlier Release, and that motivated me to do so this time. But I find it very difficult to understand how the Board can represent that "some" audit committee members agreed that disclosing the name of the engagement partner would be beneficial based on the comment letters received on the earlier ED. Frankly, in the spirit of auditor skepticism, I would have expected Board members to have challenged and more carefully fact-checked such a counter-intuitive statement in the current ED.

In his remarks to the AICPA conference, Chairman Doty also suggested that audit committees would be direct beneficiaries of the new engagement partner information as it is gathered and analyzed over time:

> Nor can the responsibility to select only the best engagement partner be placed at the feet of audit committees, unless we provide audit committees better information against which to benchmark. Diligent audit committees try to obtain information about, and pay careful attention to, a proposed engagement partner's history. But today most of that information must come from the very firm putting the partner forward. The lack of generally available information about engagement partners limits audit committees' ability to meaningfully assess and compare the partner's qualifications and experience.

I respectfully disagree with Chairman Doty. Based on my experience and discussions with scores, if not hundreds, of other audit committee chairs and members through various seminars and other meetings over the past few years, no one has suggested the need for public information in order to meaningfully assess qualifications and experience. In fact, it is just the opposite. We are able to dig deeply into the individuals' background and experience through confidential sources rather than relying on the type of limited public information that would be gathered under the PCAOB proposal and would often be out of date. Further, depending on the size and the nature of the engagement, there is usually more than one candidate for engagement partner rotation, and they are subject to in-depth interviews on a subjective basis. Also, it has become a general "best practice" to inquire of the audit committee chairs and CFOs with whom candidates previously worked to learn about past performance. This would include important matters such as:

- Did the partner inform management and the audit committee about accounting and auditing issues that arose on a timely basis rather than possibly allowing them to worsen into larger issues because of a failure to communicate promptly?
- Did the partner have an effective relationship with the audit committee chair that made clear the firm's reporting relationship was to the committee and not to management?
- Was the partner successful in building good rapport and trust with all members of the audit committee and not just the chairman?

As an example, for one of my previous audit committee engagement partner rotation decisions, let me briefly describe some of our process. After reviewing resumes of several potential candidates identified by the firm, we selected three finalists for in-depth interviews by the audit committee and management. After initial interviews, one candidate was eliminated and our final decision came down to a choice between two individuals who the audit committee considered very well qualified. One candidate had more international experience, which was a plus. One had previously not served as an engagement partner on such a major audit but had been an assisting partner on an even larger audit – the other was rotating off being engagement partner on a major account. One was a female and one was a male, and our end customers were largely females. Neither had experience exactly the same as our industry, but our business was sufficiently general so that wasn't considered to be a problem. One had more national office contacts through service on firm committees, thus giving us more comfort that we would receive prompt assistance at that level when needed. Both individuals were well known to and were considered excellent by our outgoing engagement partner, with whom we had developed a high degree of trust.

The point of the above is simply that our final decision was a thoughtful judgment after weighing all of the competing factors (I listed only a few). That is a significant responsibility assigned to audit committees under the Sarbanes-Oxley Act and it is taken very seriously. Most of the types of information mentioned above (as well as the type of information from interviews with other audit committees served) could never be captured in a public disclosure system. At best, disclosing the name of the engagement partner and accumulating some related information over time will only be piecemeal and perhaps even misleading.

My experience has been primarily with quite large public companies and it may well be the case that naming the audit partner could be more useful for audit committees of smaller public companies. However, if they are served by smaller accounting firms, they will have much less choice among engagement partners in the first place so having the information made public wouldn't be meaningful to audit committees of those companies either. In short, I don't agree with Chairman Doty's remarks on this matter and believe the Board should challenge the assertion before accepting it as a possible reason for adopting a final rule.

<u>AQI – A more promising approach</u> - The PCAOB's Audit Quality Indicators project, while in an early stage, shows great promise of providing meaningful information to investors and other users of audited financial statements about the quality of audits. Naming the engagement partner is at best a premature and small

part of the AQI package, and more likely not a meaningful indicator at all. I support the Board's efforts to develop useful AQI's and look forward to the forthcoming Concepts Release as the first public step in that process.

The proposal accentuates the negatives - I'm very concerned about the overly negative emphasis in the matters that the Board suggests might be gathered and disclosed about a named engagement partner. The types of matters related to the engagement partner that the Board thinks might be gathered in the future include association with restatements, going concern modifications, and enforcement actions – all quite negative matters. While some of the suggested personal information, such as previous industry experience and "awards," are more positive, overall this seems to be an exercise to ferret out bad actors rather than identifying high quality performers. As noted below, I have reservations about each of the "negative indicators" suggested in the ED as to how they would be implemented in practice and whether they would, in fact, be meaningful to investors and other potential users of the information. I also am concerned that emphasizing the negatives could just add to the stress faced by so many audit partners in today's world who already may feel that PCAOB inspectors are the enemy and are "out to get them." I hear quite often about this unnecessarily adversarial attitude and the reality that many, well qualified individuals are being driven out of audit practice by what they perceive as a "gotcha" mentality of the inspections staff.

The Release suggests looking for association with restatements but which partner really has the principal responsibility? The one who signed the report when an error was first made? The one who signed the report when it was corrected? What if the correction was a change in understanding of the application of an accounting standard such as occurred for certain lease accounting issues several years ago that occasioned a couple of hundred restatements? There are so many questions involved here that users would almost have to have an FASB or SEC rule to know how to judge whether a restatement was or was not a black mark on an engagement partner's record.

And the Release seems to equate a going concern modification with negative performance by the engagement partner. To the contrary, standing up to the client and insisting on such a position often takes great courage as it can have extremely damaging consequences to a company. This may actually be a positive rather than a black mark!

As for involvement with PCAOB or SEC enforcement actions, I am reasonably confident that accounting firms withdraw the offending partners from active management of public audit engagements in most if not all cases, certainly for those with a significant market capitalization. In any event, it is impossible for me to imagine that an audit committee would accept a new engagement partner with such a blemish on his or her record. Thus, I don't see the need for further user information or public protection beyond what is presently available with respect to enforcement matters.

Greater accountability? Not! - As noted by Ms. Franzel, "The release also suggests that such disclosure may create an incentive for auditors to voluntarily take steps that could result in improved audit quality." Board member Steve Harris stated, "Investors and others have asserted that disclosure of the engagement partner's name will produce a heightened sense of accountability for the audit on his or her part, which will lead to more robust audit behavior and higher quality audits. This is not surprising, given that personal accountability is a foundation of performance in all walks of life." However, Board member Jay D. Hanson, who has actually "been there, done that," accurately observes, "Accountability for audit engagement partners, in my experience, is already built into the system." Mr. Hanson also noted that the Board had found no evidence that identifying audit partners will enhance the accountability of those partners and therefore enhance audit quality.

I fully agree with Mr. Hanson based both on my own auditing experience with a major accounting firm and in dealing with engagement partners with most of the largest accounting firms in my capacity as an audit committee chairman over the past twelve years. It is most disrespectful to engagement partners to suggest that they will somehow heighten their sense of accountability when named in the accountant's report. Now, they sign their name in the firm's review and approval forms in order to issue the auditor's report, which is the point at which they accept full responsibility for that report. They also realize they are subject to inspection by the PCAOB and their career is at stake should the inspections team find serious fault with the work on their audit. And, of course, their various judgments and other audit work are all subject to the firm's independent quality review, SEC review, civil litigation, etc. Further, they are continually challenged to do their best work by the audit committee. To suggest that somehow there is another level of quality to which they can rise as a result of being named in the auditor's report is both naïve and almost insulting, in my opinion.

A modest suggestion – As noted earlier, I suggest that the Board give a lot more consideration as to how the engagement partner name might be gathered and analyzed. If Board members can't think through what would be a reasonable way in which these data would be used, it isn't appropriate to start forcing firms to begin disclosing the information. Working with accounting firms to gather what a sample of engagement partners would actually have had reported about them would be a good place to start in working toward whether this could be meaningful information.

Disclosing Certain Other Participants

I am in general agreement with the proposed disclosure of other participants in the auditor's report. And I support the changes to the earlier ED with respect to the minimum 5% cutoff for disclosure and the use of approximate percentage ranges. The ranges the Board has chosen seem appropriate.

I am, however, concerned about how investors will interpret disclosure of the fact that entities that are part of the global network of one of the major accounting firms are performing part of the audit. For example, without getting into confidential information, one of my former board companies was audited by Deloitte & Touche LLP in the United States. That firm, of course, was inspected by the PCAOB. But the company in question had extensive operations in Europe, Asia, Latin America, and Canada. In fact, approximately 50% of its revenues were from international sources. Deloitte performed statutory audits for most of the foreign locations and a material portion of them were included in the financial statements audit.

Using the example language beginning on page A2-6 of the ED, disclosure of that situation might be included in an Appendix along these lines (these countries and percentages are just made up by me for illustration purposes):

> 5% to 10%:
> - Deloitte & Touche LLP (United Kingdom)
> - Deloitte & Touche LLP (Hong Kong)
>
> Other participants whose individual aggregate extent of participation was less than 5% - fourteen other firms (should we say these were all Deloitte firms?) whose individual extent of participation was less than 5% of the total audit hours, participated in the audit.

While it is possible that users can be educated as to the meaning of this disclosure over time, at least initially I think many will be confused rather than informed by a Deloitte report that says that Deloitte performed part of the audit! This, of course, is important to know if one is interested to check on the (material) parts of the overall audit that weren't subject to inspection by the PCAOB. But it's the audit committee that is the first line of defense on this matter and that committee will have reviewed the accounting firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control or peer review, or any investigations of the firm. That committee will also have asked other, appropriate questions to be satisfied that the audit performed in all locations is of uniform quality.

I believe a disclosure along the lines of the sample I've suggested above needs to be supplemented with some language in the auditor's report to eliminate the possibility of a reader assuming that the "other participants" named in the report are of significantly lower quality. This could be done with wording that covers the signing firm's oversight, supervision, and review responsibilities over the other firms (including whether the other firms have been subject to the signing firm's inspection program). Perhaps the audit committee will also feel obliged to say something in the future in its report to indicate its satisfaction with the quality control procedures applied by the signing firm.

I can understand why the disclosure of other participants may be even more obvious and important in situations where a global alliance (e.g., "CPA Firms R us Worldwide") includes fully locally-owned and operated under different named firms. However, even there I would assume that further disclosure along the lines of what quality control procedures the signing firm has applied would be appropriate.

To be clear, while I generally support the proposed disclosure of other firms involved in the audit, I believe that absent accompanying explanations of the signing firm's oversight, etc., this disclosure would be so incomplete that it should not be included in the auditor's report. In that case, perhaps a discussion of the matter could be included in the audit committee report in the proxy statement or in material in the proxy statement related to a shareholder vote on auditor ratification.

With respect to the requirement for disclosure of Persons Not Employed by the Auditor, I understand the general reasoning for not naming all of the individuals or firms so included. However, it seems to me that if the percentage of the total hours performed by an individual is material to the overall audit, the reader should receive further information. I would assume that would be an unusual circumstance (perhaps it would never happen!) but if more than 5% of the total hours were performed by one of these individuals, I would suggest they should be identified by name and the nature of their services be stated.

I would be pleased to discuss any of the matters in this letter with you at your request.

Sincerely,

Dennis R. Beresford
Executive in Residence

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100 Park Avenue
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February 6, 2014

Via e-mail: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Release No. 2013-009, Rulemaking Docket Matter No. 029: *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit (the "Release")*

Dear Board Members and Staff:

BDO USA, LLP ("BDO") is pleased to have the opportunity to comment on the *Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit (the "Proposed Amendments").* As noted in our prior comment letter on this topic[1], we recognize the need to increase transparency about the audit process, particularly as it relates to promoting the performance of high quality audits, and we are committed to actively participating in efforts to enhance audit performance. We believe that many of the recent efforts undertaken by the PCAOB, including the proposal to provide for the discussion of critical audit matters in the audit report and the current project to identify and disclose certain audit quality indicators, support such efforts in increasing transparency about the audit.

We do not, however, believe the proposed amendment that would require identification of the engagement partner provides meaningful information to users or results in enhancements in audit quality. Moreover, beyond the potential for adverse unintended consequences on audit quality, we are concerned that identification of the engagement partner could result in practical implementation challenges, in particular as they relate to providing consents, and increased risk in litigation exposure, which are described more fully below under the section "Further Comments on Specific Proposals." We encourage the Board to consider these matters in evaluating whether to move forward with this aspect of the proposal at this time. However, if, notwithstanding our concerns, the Board continues to move forward with this aspect of the Proposed Amendments, we believe identification of the engagement partner more appropriately belongs within Form 2 rather than within the auditor's report. Providing this information within Form 2 would address calls from investors for such information while mitigating our concerns regarding consents and increased liability exposure.

Another proposed amendment described in the Release would require disclosure in the auditor's report of information about certain other participants, including other independent public accounting firms. Consistent with our commitment to further meaningful transparency about the audit, we support providing information about certain other participants in the

[1] See BDO comment letter to the PCAOB dated January 9, 2012.

audit, and consistent with our views regarding engagement partner identification, we believe a more appropriate approach to disclosure would be to disclose such information within Form 2. Furthermore, we believe the threshold for disclosure of other participants in the audit should be revised to reflect a minimum absolute hours disclosure threshold, such that when the aggregate extent of participation of all other persons from the same country not employed by the auditor or the individual extent of participation of other independent accounting firms is less than 5% or 50 hours in the most recent period's audit, the other persons or firms would be disclosed as a group. We believe including a minimum absolute hour disclosure threshold would increase the usefulness of this information by focusing attention on those certain other participants with a more than limited role in the audit. This will improve the proposal by focusing on larger engagements where other firms may play an important role in the audit, as opposed to smaller engagements where other firms may perform less important services such as inventory observations or minimal other procedures.

Further Comments on Specific Proposals

Engagement Partner Identification

We are concerned that identification of the engagement partner, whether within or outside the auditor's report, places undue emphasis on the role of the engagement partner without consideration of other more relevant factors that impact audit quality. As a result, we believe that incorrect inferences about engagement partners and audits may be made, particularly when the experience of an engagement partner is not publicly available (e.g., when the partner's experience was previously with a non-issuer client or otherwise outside the public company audit environment). We believe a more appropriate and effective way to impact audit quality and provide relevant information to users is through the work currently underway by the PCAOB relating to audit quality indicators, and we support the PCAOB's efforts in this regard.

Providing and Obtaining Consents

We understand, based on the discussion on pages 21 to 22 of the Release, that engagement partners and participating accounting firms named in an auditor's report would be required to consent to the inclusion of their names in an auditor's report filed with, or included by reference in, another document filed under the Securities Act with the Commission. However, we believe there are significant implementation challenges in obtaining consents from engagement partners and certain independent public accounting firms that may not have been previously contemplated. For instance, as it relates to engagement partners, a consent may be required from an engagement partner who is no longer associated with the issuer's audit firm or may not be in a position to provide a consent (e.g., when a consent is required, there may be concerns about sharing confidential information with a partner who changes audit firms). Additionally, it may be inappropriate under current SEC independence rules for an engagement partner that rotated off an engagement after the five-year service period to perform any updating procedures on that engagement to be able to provide a consent.

BDO

With respect to certain independent public accounting firms who participated in the audit, such firms may deem it necessary to review a filing and perform updating procedures before providing consent, even in areas in which they may not have had responsibility, resulting in additional costs and possible delays in the filing of a registration statement. The issue would be further complicated when consents are required from non-network firms or there are unforeseen difficulties in obtaining all necessary consents from firms on the filing date.

Liability Considerations

We believe the Proposed Amendments have the potential to significantly increase the risk of litigation exposure, primarily as it relates to Section 11 of the Securities Act of 1933, as a result of naming the engagement partner or a participating accounting firm in the auditor's report. While the Board explains in the Release that any possible increase in liability exposure for a named engagement partner or a participating accounting firm is limited, and that the potential risk of such an increase is justified by the potential benefits of greater transparency, we do not believe the potential increase in liability exposure is limited or insignificant or that the potential benefits set out in the Release are available only through naming the engagement partner or a participating accounting firm in the auditor's report. We believe the benefits of transparency relating to participating accounting firms can be attained without significantly increasing liability exposure by including the required information in Form 2. Furthermore, if the Board decides to move forward with the proposal to identify the engagement partner, despite our concerns noted above, we believe disclosure in Form 2 is also a more appropriate reporting mechanism, for the reasons previously stated.

Emerging Growth Companies (EGC) and Brokers and Dealers

We believe the Proposed Amendments, when finalized to reflect comments received, should apply to audits of EGCs because of the benefits of transparency to all financial statement users. However, we do not support application of the Proposed Amendments to non-issuer brokers and dealers, because (1) the ownership of these brokers is primarily closely held and direct owners are generally part of management and (2) we believe this information would not be relevant to third parties.

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We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Chris Smith, Audit and Accounting Professional Practice Leader, at 310-557-8549 (chsmith@bdo.com) or Susan Lister, National Director of Auditing, at 212-885-8375 (slister@bdo.com).

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP

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February 3, 2014

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 29, *Improving the Transparency of Audits: Proposed Amendments to the PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*

Dear Office of the Secretary:

We appreciate the opportunity to respond to the Public Company Accounting Oversight Board's ("PCAOB" or "Board") Release No. 2013-009 on *Improving the Transparency of Audits: Proposed Amendments to the PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* ("Release"). Overall, we support the Board's efforts to improve transparency to investors and other financial statement users. However, we have several reservations regarding the proposed amendments. This letter includes our views and observations on engagement partner identification and identification of other participants in the audit as set forth in the Release.

Disclosure of the Name of the Engagement Partner

We do not support the identification of the engagement partner in the audit report, as we do not believe it will serve to advance the Board's goal of improving audit quality. Further, we have concerns that investors, issuers and auditors would suffer unintended negative consequences.

We acknowledge that identifying the engagement partner in the audit report would increase transparency of that information but question how that information is valuable to investors or how that information can be used by investors to better understand the audit or audit process. Users, other than perhaps audit committees, lack the full context necessary to truly evaluate audit quality, and users of the audit reports may draw inappropriate inferences about the expertise or experience of the engagement partner. This limited information doesn't take into account the unique circumstances applicable to engagement partner's experiences with other public companies, nor their experiences outside the public company environment. It also doesn't take into account the experience, expertise or relative roles of the engagement quality reviewer, subject matter experts or other firm specialists who play significant roles in the audit, especially in complex, higher risk areas. Audits are performed by teams of individuals who perform critically important functions. Therefore, we believe it is more appropriate that firms sign audit reports and not individuals.

For all the reasons and concerns mentioned above, we also do not support the identification of the engagement partner in the PCAOB Form 2.

Disclosure About Certain Other Participants in the Audit

We do not support the identification of other participants in the audit report, as we do not believe it will serve to advance the Board's goal of improving audit quality. Further, we have concerns that providing that information when the primary audit firm assumes responsibility for or supervises the work of those participants would appear to change or diminish the overall responsibility of the primary auditor. We do not believe it is possible for users of the financial statements to make any informed decision about the impact on audit quality simply by naming other participants without also evaluating the materiality and complexity both of the information being tested, nature of the work performed, the qualifications of the participants who performed that work, the extent of planning, supervision and review performed by the principal auditor.

If the Board believes the current quality control standards on supervision of other participants used in an audit are unsatisfactory, we respectfully propose the Board tackle those issues by amending current auditing standards or proposing auditing standards to address those issues.

We also have concerns that the identification of other participants could be a competitive disadvantage for smaller firms when compared to larger firms who have common branding of their network firms, *i.e.*, use of a common name. Investors may make incorrect assumptions about the quality of network firms based on similarity of their names to the detriment of smaller firms that lack a similar network structure.

For all the reasons and concerns mentioned above, we also do not support the identification of other participants in the PCAOB Form 2.

Liability Considerations

The requirement for a consent pursuant to Section 7 from the engagement partner and other participants, if named in the auditor's report, raises other concerns with legal liability and logistical challenges. Liability considerations are primarily related to an increase in Section 11 liability. We believe the increase in litigation exposure to engagement partners and other participants would be an unintended consequence of the Release to increase transparency.

The logistics of obtaining consents from engagement partners who have since left the firm due to retirement, joined another firm or have been hired by a firm's client could prove, in some cases, to be an insurmountable challenge since a firm would have no legal rights or ability to force the former partner of the firm to provide their consent. There may be independence issues, as well, in these situations if a former engagement partner is required to consent during a cooling off period. It is unclear how these would be addressed in the Release.

The logistics of obtaining consents from other participants could prove to be even more challenging. Given the increase in liability, these other participants will have to perform other procedures around the filing before issuing a consent, thereby increasing their time and costs related to their use in audits.

Scope of the Proposal

We believe the scope of the proposal should include emerging growth companies (EGCs), as EGCs have the same characteristics as other public companies and the users of their financial statements would benefit from the same disclosures as other issuers. We do not believe the scope of the proposal should include nonissuer brokers and dealers, as the cost to provide the relevant information would not justify the incremental cost considering most brokers and dealers are so closely held.

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We appreciate the opportunity to express our views on this important topic for the Board's consideration. If you have any questions or would like to discuss these matters further, please contact Jennifer George or Doug Bennett at 417.831.7283 or by email at jgeorge@bkd.com or dbennett@bkd.com.

Sincerely,

BKD, LLP

BKD, LLP

CHARLES A. BOWSHER

February 26, 2014

Mr. James R. Doty, Chairman
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Dear Chairman Doty:

I wish to send this comment letter in support of the current Public Company Accounting Oversight Board ("PCAOB") issue of the engagement partner being identified in the audit report.

Early on in 1982, when I was beginning my 15-year term as Comptroller General of the United States and head of the General Accounting Office ("GAO"), we embarked on a major effort to improve the quality of our audit work and the final audit report.

One issue we considered and finally adopted was having the senior person who led the work and was responsible for writing the audit report be identified in the report.

We were very pleased with the result. This one change made a significant improvement in the audit work and the final report. We were also pleased that our professional staff became very proud to be identified in the report that they had worked so hard to produce.

In addition to my own thinking, I can vouch that my two Deputy Comptroller Generals, Milt Socolar and Jim Hinchman, and the Assistant Comptroller General in charge of our financial and accounting audit work, Don Chapin, CPA and former Senior Partner of Arthur Young and Company, were all in agreement that this was one of the most significant changes that led to improved audit work and reports at the GAO. This change is still in effect at the GAO, which is now over 30 years ago, and the GAO issues several hundred reports each year.

I strongly urge the PCAOB to adopt the auditor identification proposal. It is just as much needed in the private sector audit work as it was in the government audit work.

Sincerely,

Charles A. Bowsher

Charles A. Bowsher

G. Lawrence Buhl, CPA

Phoebe W. Brown, Secretary
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

March 5, 2014

Re: PCAOB Rulemaking Docket Matter No. 029, Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Dear Ms. Brown:

I support the PCAOB's efforts to enhance transparency about the auditor's role and responsibilities. I also support the identification of any and all accounting firms that have a significant role in the execution of the audit, but believe this information should be provided outside of the auditor's report. I also do not support identifying the engagement partner in the audit report. But if it is determined that a mandate for that exists, I suggest an alternative that can be made either in a 10Q, or proxy, or in a public filing with the PCAOB, that is similar to information already provided, in most cases, to Audit Committees at the outset of the audit engagement.

In my view, identifying the engagement partner will not provide meaningful additional information to investors. One observation in the PCAOB proposal is that identifying the specific senior audit partner might affect some educated investor's investment decision on a registered company. I apologize for my candor, but that seems ludicrous ("could be valuable to investors in making investment decisions"). The specific lead audit firm that is involved "might" impact an investment decision, perhaps because size and reputation and scope of operations vary, but even that would be unusual. Since audit partners rotate every 5 years or less, and are backed up by the resources and experience and depth of the firm, and since the PCAOB gets satisfied that National oversight and quality control by registered firms is adequate, I struggle to comprehend someone seriously suggesting that which audit partner for one of the Big 4 firms is assigned can affect an investment decision. And the follow-on suggestion in the proposal that the identification might impact someone's ratification vote for the following year's auditors also seems a stretch. Since rotation is required every 5 years, the partner involved in "signing" the current year audit report will frequently not be the partner on the engagement assignment for the succeeding year being voted on. I suspect that the various jurisdictions that already require the partner to personally sign the audit report have done so in some historical or statutory context related to the audit profession in that country, vs. for the reasons suggested in the proposal. I would not think Croatia and Taiwan are leading the world in setting international trends and disclosure standards, yet are referenced.

The Proposal suggests that the identification of the signing partner will cause greater accountability on the part of the partner with respect to his/her attention to the audits and audit quality. Some may believe that, not knowing much about the profession or its history or its practices. As a former partner with a Big 4 Firm who signed reports on SEC registrants' financial statements for almost 25 years, I needed no further reminder of my responsibilities. As a CPA who completed challenging and comprehensive exams and is required to complete "continuing professional education(CPE)" annually, including professional ethics matters, I had a "Hippocratic Oath" of my own that framed my job. The Firm culture ingrained in me my responsibilities, as did its practices. I can only assume and hope that every Firm approved to audit SEC registrants has a similar culture and practices, and part of the PCAOB's job is to ensure that. Furthermore, I did sign an internal form at the conclusion of the audit enumerating my agreement regarding the completion and execution of my responsibilities. The lack of faith in the CPA profession by the PCAOB and some academics and some small cadre of investors is disheartening, considering the role we place on the profession in our capital markets.

The execution of an effective audit is a collective effort that can involve many individuals and depends on a variety of factors. The specialists (actuarial, tax, valuation, real estate, investment, information technology, e.g.) assisting the engagement team are frequently just as important as the lead engagement partner in completing the audit and targeting areas of highest risk. And the assisting audit partners in the field, if any, in various locations, are equally as important as the engagement partner. They are closer to the day-to-day work in directly supervising the remainder of the engagement team.

For every SEC registrant audit I have been involved in as an audit partner or as Chair or member of two public company Audit Committees, the audit firm presents annually a visual of the assigned audit team and its support specialists. Their role if not obvious by title or placement on a chart is explained. The change in personnel from the prior year is also explained. This is usually done at least orally and in summary at the time of approval of the Firm for the next year's audit, and, if the full engagement team is not presented then, it is done when audit scope is discussed. This information could be presented in an attachment/exhibit to the next subsequent 10Q filing. The proxy section addressing audit fees could refer to that specific filing and address whether there was any change in that graphic at the higher levels throughout the execution and completion of the audit.

Information overload and the extent of disclosures in Annual Reports is a very real issue. If some few, and based on the letters you received on this issue it can only be a few (43 respondents in total), want the information, it can be made accessible but not distracting to the key messages in the audit report, the financial statements, the proxy, etc. Submitting the information, considering how inconsequential it is to the vast majority of report readers, in an exhibit to a less critical filing than the 10K or proxy seems the right place, if at all. The PCAOB presents several concerns about making the seeker of this information go to more than one source or one filing, yet part of the rationale for the requirement is the creation of databases by independent parties to compile and present analysis of this information for supposed use in investment decisions. So to make it useful, one would need to refer to several sources. And if those who care are so few, why distract the many for the narrow interests of the few?

Respectfully, this entire proposal should never have risen to this level of discussion based on the interests of so few. If the dialogue proceeds, please do not dilute the message of the audit report with distracting additional elements. Allow the information to be provided somewhere else.

Very truly yours,

G. Lawrence Buhl

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February 1, 2014

Secretary
PCAOB
1666 K Street
Washington, DC 20006-2803

Dear PCAOB

RE: Release # 2013-009, PCAOB Rulemaking Docket Matter # 029

Convergence 'at all costs' seems to be the reaction amongst professionals on several of the suggestions put forward in this Exposure Draft.

Dragons and kite flying are traditions on this day to celebrate the Chinese New Year. It is a shame that comments due in circa 32 hours from now smack of kite flying by the PCAOB staff, who are obviously being influenced by their cross Atlantic colleagues.

Cultures are different and the predisposition of the EU with its protective umbrella for investors and citizens, often arising from the cradle to grave care by some EU member countries, may not best serve the Public Interest of US Investors who operate in a less regulated, more market responsive environment. Also, as European companies are often dominated by "insider" shareholders, the public disclosures may be more appropriate in Europe.

This perhaps manifests the problem of 'convergence'. *One size does not fit all*.

It should be noted that the UK Companies Act was altered in recent years to incorporate Lead auditor disclosure. More recently, Glaxo Smith Kline used a safe harbor provision of that Act to NOT disclose the lead auditor's name. Was the spirit of the UK companies Act being circumvented for specious reasons? It seems that *One size does not fit all* in the UK! Will such an escape provision for public companies be included in any US standard?

Dr. Ralph Estes , CPA, Emeritus professor at American University, Washington DC ,co-founder and vice president of The Center for Advancement of Public Policy, in his book "The Auditor's Report and Investor Behavior" summarized the effect of audit reports on user behavior as:

Significant Effects were found in a few studies, but these were

outnumbered by studies In which no significant effects were found (p. 29).

In 2011 Francine McKenna, a Forbes contributor asked:

> What are audit firms hiding? Don't investors, and Audit Committees, have a right to know everything about the men and women they're counting on to provide multi-million dollar audit opinions?
>
> This is the question to resolve.

OUR ANSWERS TO QUESTIONS FOR COMMENTERS

1. Would the (re)proposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

The (re)proposed requirements, based upon prior studies, are unlikely to provide investors and other financial statement users with useful information.

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

Remote

3. Over time, would the (re)proposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

Not likely

4. ***Likely to be unnecessary duplication of work currently being done by independent advisors. Could denigrate the value of the audit report.***

5. ***Possible not probable***

6. ***No***

7. Would the (re)proposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies?

In a pure market 'yes' but the providers of audit services are limited in number and thus the market for their services is distorted.

8. Would the (re)proposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

Probably. However, PCs should prominently publish their AC minutes which identify the engagement partner.

9. What costs could be imposed on firms, issuers, or others by the (re)proposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

Minimal

10. What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

Courts could consider named engagement partners as co-defendants in any litigation. Should engagement partners be safe-harbored? Probably not.

11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

No. One size should fit all in this instance.

12. Would the (re)proposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

Possibly. However, the public display of the signing off on the audit report in front of the Annual meeting attendees would bring more accountability especially if it was webcamed and accessible on the company's web site for a period of years and providing accountability to all the investing public and those unable to attend the Annual meeting.

13. What costs could be imposed on firms, issuers, or others by the (re)proposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

Conjectural.

14. What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

Miniscule.

15. Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

No.

16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users?

Probably.

Why or why not?

Speculative.

Would the (re)proposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

Not likely.

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

Keep 3%. Aggregation offsetting a concern.

18. Under the (re)proposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.
    a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?

No.

    b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

Overboard. Detail for the PCAOB staff.

19. Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the (re)proposed requirement to disclose other participants in the audit?

No.

20. Under the (re)proposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

    a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

Yes.

    b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

Possibly, but value may outweigh cost.

21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

Yes.

22. If the Board adopts the (re)proposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

Yes. Consistency and comparability.

23. Are the (re)proposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

All registrants should be treated alike.

24. Should the (re)proposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the (re)proposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

We are of the opinion that the disclosure requirements, if adopted, should apply equally to EGCs.

25. Are the disclosures that would be required under the (re)proposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the (re)proposed amendments that are specific to the EGC context?

No

We conclude, as you do, that as the auditor's report is retrospective, and disclosure of an engagement partner's identity in the auditor's report provides information only about the most recent period's audit of the financial statements. You raise a valid point in that it does not provide information about the identity of the next period's engagement partner, which may be of interest to shareholders. Changes in the engagement partner could raise further questions about the identity and qualifications of the new engagement partner. We propose that questions and answers about engagement partners could be informed by additional public information or by the AC minutes being made publicly accessible.

You recognize that the engagement partner has the most direct relationship with the audit committee and senior management and serves as the **primary interface** between the audit firm and the audit committee and senior management **and s/he reports to the stockholders**!

A prime consideration should be the refusal of Chinese audit firms -- based on Chinese "law" -- to satisfy US regulators repeated requests for information directly related to audit quality (which are routinely answered by U. S. audit firms). We would tend to heavily discount the usefulness of material audit assurances given to lead auditors by correspondent "audit" firms located in jurisdictions which allow them to avoid oversight. Indeed, lead auditors should be specifically required to test and provide an opinion on the usefulness of assurances from such correspondent firms.

More transparency is advocated.

Please do not hesitate to email or phone if our responses require further elucidation.

Sincerely,

AWBurrowes

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March 17, 2014

Phoebe Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW, 8th Floor
Washington, DC 20006-2808
Re: PCAOB Rulemaking Docket Number 29

Dear Ms. Brown and PCAOB Members:

On behalf of the California Public Employees' Retirement System (CalPERS), thank you for the opportunity to provide our comments on PCAOB Rulemaking Docket No. 29 – Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Auditor's Report of Certain Participants in the Audit.

CalPERS is the largest public pension fund in the United States with over $280 billion in global assets and equity holdings in over 9,000 companies. CalPERS provides retirement benefits to more than 1.6 million public workers, retirees, their families and beneficiaries and we rely on the quality and integrity of market information to allocate capital on behalf of our beneficiaries.

In its Global Principles of Accountable Corporate Governance, CalPERS articulated its views on the importance of role accounting and auditing play our capital markets. Principle IV provides:

> Financial reporting plays an integral role in the capital markets by providing transparent and relevant information about the economic performance and condition of businesses. Effective financial reporting depends on high quality accounting standards, as well as consistent application, rigorous independent audit and enforcement of those standards. CalPERS is a strong advocate of reform that ensures the continual improvement and integrity of financial reporting.

In addition, CalPERS has voiced its view that requiring audit partners to sign the opinions they issue will enhance accountability and reliability in the audit process. During a recent PCAOB Investor Advisory Committee meeting, I echoed calls to require audit partner signatures on audit reports. "I'd like to fully support [the audit partner signature requirement]. When considering the question of transparency on the audit, it's hard to understand who would object to this. Who would not be willing to stand and be held accountable for their own work?"

Moreover, this common-sense proposition has been supported by empirical evidence. In a paper published in September 2013 volume of *The Accounting Review*, the peer-review journal of the American Accounting Association, Professors Joseph Carcello (University of Tennessee) and Chan Li (University of Pittsburg) confirm the conclusions of the US Department of the Treasury's Advisory Committee on the Audit Profession ("ACAP") which expressed the view that "the engagement partner's signature on the auditor's report would increase transparency and accountability."

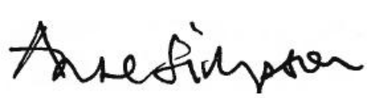
Professors Carcello and Li analyzed this statement in the context of the United Kingdom audit partner signature requirement. They concluded:

> Overall, our results indicate that the implementation of a partner signature requirement in the UK has offered benefits to investors and other financial statement users. First, earnings management has declined, whether measured by abnormal accruals or the propensity to meet an earnings threshold. In addition, the incidence of qualified audit opinions has increased. Perhaps because of this decline in earnings management and/or because of a greater willingness by auditors to issue qualified opinions, the informativeness of earnings has increased. Importantly, the results for both control samples – US firm which have not implemented a signature requirement, and firms in other European Countries that adopted the partner signature requirement before the UK – suggest that the audit quality improvements experienced in the UK after the partner signature requirement are unlikely to be due to other changes in the audit or business environment not included in our model….
>
> …. Our results are consistent with the argument that requiring an individual audit partner to sign a report improves audit quality by increasing the partner's accountability and transparency of audit reporting….
>
> (See, Joseph V. Carcello and Chan Li (2013) "Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom," *The Accounting Review*: September 2013, Vol. 88, No. 5, pp. 1511-1546)

We have addressed in the attachment certain questions in the proposal, but we applaud the work of the PCAOB and wholeheartedly support the approach set out in the proposed rule. We would also refer the PCAOB to two letters we previously submitted on the subject. The first relates to the PCAOB's earlier concept release in 2009. The other was submitted to the Treasury Department's Advisory Committee on the Accounting Profession. (See http://pcaobus.org/Rules/Rulemaking/Docket029/022_CalPERS.pdf)

Thank you for your consideration. If you have any questions, please do not hesitate to contact me at (916) 795-9672 (anne_simpson@calpers.ca.gov) or Don Marlais of Lussier, Gregor, Vienna & Associates - our federal representatives - at (703) 888-4522 (dmarlais@lgva.net).

Sincerely,



ANNE SIMPSON
Senior Portfolio Manager, Investments

Supplemental Responses of the California Public Employees Retirement System (CalPERS) regarding PCAOB Release No. 2013-19, PCAOB Rulemaking Docket No. 29

1. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

As noted in our comment letter, CalPERS believes requiring the engagement partner signature will enhance accountability in the audit process and believe it will improve audit quality. Predictably, investors or other users of financial statements will likely use information on audit partners and other personnel in making investment and/or engagement decisions based on the perceived quality of the work performed.

For example, if an issuer restates its earnings, financial statement users, corporate boards and firms themselves may take note of the audit team personnel and may request another audit partner or personnel be assigned to the audit going-forward.

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

Long-term shareowners such as CalPERS seek reliable financial information from its portfolio companies. If an audit firm is assigning personnel whose audits are subject to material restatements or similar inaccuracies, investors may engage audit committees and the issuer to review their audit contract, and discuss whether the engagement partner or firm should be changed, through an open bid selection process and/or chose to reallocate its investment assets.

3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

We believe that this will be a likely market-based reaction to the disclosure of this information and may stimulate collection of comprehensive trend data, providing investors additional tools in determining the reliability and integrity of a company’s financial reporting.

a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

Many investors will not have the resources to compile and compare audit personnel information, so it is logical that they would want to identify a vendor that would provide this information.

b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

Over time, aggregate information on audit personnel could be used as an audit quality indicator. We also believe audit firms could utilize the data to evaluate and improve training, audit firm governance and overall process.

4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

For the reasons stated in our letter and in this document, we believe information on audit personnel at all levels will be useful to improve transparency and accountability. The broad inclusion of personnel will allow for a review of performance over an extended period of time, including performance with multiple firms and at differing levels of responsibility.

5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

Information without the ability to obtain it is not transparency. The information about audit personnel should be included as part of the audit report filed with the SEC and be publicly available.

6. Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

For the reasons stated in our letter and in this document, we believe the disclosure of the engagement partner's name could promote more effective capital allocation because investors may use that information to engage with audit committees along with issuers and or use to make allocation decisions. We expect that market participants will view an engagement partner's history as a relevant indicator of audit quality. For example, if an audit partner issues opinion on issuers who frequently restate their earning, investors may view that partner as lacking sufficient professional skepticism or competence.

7. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

Yes, we believe market forces will influence competition. If investors are displeased with a firm's assignment of an audit partner or audit personnel, they may seek to engage with the issuer client to seek reassignment of personnel, reallocate investment asset or similar actions. We believe that

issuers may look to include more regional audit firms in their tendering process if trend data provides evidence of quality issues with the larger firms.

8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

We would encourage firms to provide sufficient information or explanations relating to these disclosures to provide sufficient context for investors to make appropriate inferences.

9. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on Emerging Growth Companies (EGCs) or auditors of EGCs than on other issuers or auditors of other issuers?

Audit firms routinely track personnel assignments, so we believe the cost of including that information would be negligible. See Joseph V. Carcello and Chan Li (2013) Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom. The Accounting Review: September 2013, Vol. 88, No. 5, pp. 1511-1546. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2225427

As with other aspects of Emerging Growth Companies (EGC) financial disclosure, we believe the lack of comparable disclosure with other issuers will result in an increased cost of capital. By providing less information to investors, EGCs can expect investors to demand high risk premiums. As such, we would encourage that the SEC determine this information should be disclosed by the auditors of EGCs.

11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

For the reasons stated in our letter and in this document, we believe the identification of the engagement partner and engagement team would improve audit quality, including professional skepticism and objectivity.

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

For the reasons stated in our letter and in this document, we believe the identification of the engagement partner and engagement team would not only improve audit quality, but also professional skepticism and objectivity.

15. Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

For the reasons stated in our letter and in this document, we believe the identification of the engagement partner and engagement team would improve audit quality, including professional skepticism and objectivity.

16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

We believe greater accountability will be achieved through the specific identification of everyone substantially contributing to the performance of the audit. Access to meaningful information about a public company allows investors to make informed judgments about the company's financial position and about the stewardship of the company's directors and management. CalPERS believes that more disclosure about certain aspects of the audit of a public company, including about the identity of the engagement partner and other firms associated with the audit, would add to the mix of information that investors and other financial statement users have about public companies, which they would find useful.

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

We believe greater accountability will be achieved through the specific identification of everyone substantially contributing to the performance of the audit. We believe a 5% threshold would provide a meaningful threshold for such contributions.

18. Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?

b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

We believe disclosures should be required for offshore work and work by foreign affiliates. This is supported with the recent suspension of the Chinese units of the Big Four accounting firms.

20. Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

We believe greater accountability will be achieved through the specific identification of everyone substantially contributing to the performance of the audit.

21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

We believe greater accountability will be achieved through the specific identification of everyone substantially contributing to the performance of the audit. This is the same concept with requiring issuers to identify Compensation Consultants and the extent of their work, independence, etc.

22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

Including those disclosures in Form 2 would seem to assist PCAOB in its compliance with this requirement, instead of obtaining that information from the SEC or a service provider.

23. Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

CalPERS believes the disclosure requirements should apply to all issuers.

24. Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

CalPERS believes the disclosure requirements should apply to all issuers. To the extent EGCs are not required to comply with these requirements and do not make voluntary disclosure of this information, we expect that investors would consider the increased risk profile when making allocation decisions.

25. Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

CalPERS believes the disclosure requirements should apply to all issuers and does not believe disclosures are more or less important for different classifications of issuers.

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February 4, 2014

Via e-mail: comments@pcaobus.org

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Release No. 2013-009
PCAOB Rulemaking Docket Matter No. 029, December 4, 2013
IMPROVING THE TRANSPARENCY OF AUDITS: PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS TO PROVIDE DISCLOSURE IN THE AUDITOR'S REPORT OF CERTAIN PARTICIPANTS IN THE AUDIT

The Accounting Principles and Auditing Standards Committee (the "Committee") of the California Society of Certified Public Accountants ("CalCPA") respectfully submits its comments on the referenced proposal. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee consists of 53 members, of whom 47 percent are from local or regional CPA firms, 27 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 10 percent are in academia and 4 percent are in international CPA firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The Committee's Overall Comments

The Committee appreciates this opportunity to comment on the PCAOB's reproposed amendments. While the Committee has provided its responses to the specific questions set forth in the reproposed amendments, we also want to address our reasons for strongly opposing its issuance.

The Committee believes that reproposed amendments to disclose the engagement partner's name and information about other participants in the audit are seriously misguided and will be of little use to anyone. Investors and other users of financial statements want reliable financial data. Their purported interest in more "transparency" about auditors stems from concerns about reliability of financial data, and not from any interest, *per se*, in investigating auditors. Further, any research that they may be able to do based on the reproposed disclosures is likely to be inconclusive except as it might relate to certain foreign auditors (as explained below). Auditors are already extensively regulated through state licensing laws, SEC laws and regulations, PCAOB requirements and oversight by the SEC and the PCAOB. The basic reason cited for the reproposed disclosures is to overcome the lack of transparency about those who conduct the audit and provide information useful to investors and other financial statement users but nowhere does the PCAOB provide any objective information as to how this might be useful to investors or other users or improve audit quality; in fact, there is no empirical data on the usefulness of this information, and the PCAOB provides nothing beyond opinions and conjecture about why such disclosures might be useful. Firms and individual auditors right now have every necessary incentive to improve audit quality where required; they are monitored by audit committees; they are extensively regulated; and, they are subject to potential litigation, including financial exposure and adverse publicity for the firm and the individuals involved in the audit. More disclosures and transparency are unlikely to have any effect on the engagement partner's or audit firm's incentive to do quality audits that is not already present, so they will not improve the reliability of financial data and therefore there is no point to the reproposed disclosures.

And what are investors and other users to do if they do have questions or issues based on the reproposed disclosures? Those disclosures would only be a part of the broad spectrum of information that is available, and since they do not directly affect financial data, are not likely to affect analysis of that financial data unless they point to potential questions about reliability of that financial data, and that is not likely to occur unless the named engagement partner has been the subject of adverse publicity, a firm relied upon by the primary auditor is felt to be unreliable, or other extreme and rare situations. But, the first and best line of defense in these situations is the entity's audit committee, which would have far greater access to relevant information than is available through the reproposed disclosures. The reproposed disclosures do not provide any information that is conclusive as to the reliability of financial data; they only allow inferences to be drawn, and those inferences may be favorable or unfavorable, depending on the nature of the disclosures, and the inferences may or may not be correct. Investors and users might seek more information from management, as they do concerning other disclosures; ability to get more information is limited by SEC disclosure rules and is therefore often limited. So, the disclosures, except in very rare circumstances, are likely to be of little use to investors and other users.

Publicly available adverse information about engagement partners is rare, and it is even rarer for the same person to be the subject of publicly available adverse information a second time on a different engagement. So, it is unlikely that attempting to link an engagement partner's name with prior adverse information will be fruitful. Trying to make inferences about an engagement partner's qualifications based on other engagements in which he/she may have been involved is done in the first instance by the firms as part of its assignment processes, and in the second instance by the audit committee before accepting assignment of the engagement partner. To now provide a third avenue through public disclosure of the engagement partner's name is a waste of time.

There is one aspect of the disclosure about other participants in the audit that has merit, but requires further study. The Committee is aware of the publicity concerning the quality of certain audits by auditors located in foreign countries, be they foreign offices of U.S. firms, foreign affiliates of U.S. firms, or firms not affiliated with the primary U.S. auditor. The Committee is also aware that the PCAOB has had difficulty in including those audits and the related auditors in its inspection program. The PCAOB inspection problem has led to increased confidence in registered firms subject to inspection. Use of offices, firms or individuals not subject to PCAOB inspection may appropriately be of interest to investors and other users of financial data, and we recommend that the PCAOB consider rules to require disclosure of the extent of their participation in an audit.

For these reasons, and the additional reasons cited in our responses to the Questions, the Committee recommends that the reproposed amendments be withdrawn.

Questions for Commenters

1. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

The reproposed requirements will not provide investors and other financial statement users with useful information. See The Committee's Overall Comments above.

See responses to Questions 4, 13, 14, 18 and 22 concerning our recommendation for disclosure about other participants in the audit in certain circumstances.

The Committee believes that the audit committee or those charged with corporate governance, who are directly involved in the hiring and retention of the audit firm, should have direct access to the names of the engagement partner(s) and other participants in the audit. Those parties have the direct responsibility to evaluate the qualifications of the audit engagement team, and to propose the audit firm to a vote of the shareholders. To assume that a specific investor group, institutional investor or other financial statement user would necessarily need the information in the reproposed disclosures and how they might use it to make an informed decision regarding the audited entity is not supported by any clear empirical studies provided by the PCAOB. Therefore, the Committee does not believe that the disclosure of these parties in the auditor's report is necessary or useful.

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

The Committee does not believe such information would be useful. See the Committee's response to question 1 above.

It is unlikely to have any effect on a decision to ratify an entity's choice of a registered firm; the firm is likely to have dealt with any adverse information about the engagement partner or other participants. The adverse information might have an impact on the firm's reputation, but that is independent from the reproposed disclosures, so the reproposed disclosures would have no effect. The only exception to this might be in the unusual case a smaller firm that does not have the depth to make necessary reassignments of engagement partners or other participants in the audit, but it is likely that a responsible audit committee would seriously consider the information before proposing ratification of a firm in such circumstances.

3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

The reproposed requirement to disclose the engagement partner's name by itself provides no information about the individual engagement partner's history, so by itself is virtually useless for any of the purposes apparently intended by the PCAOB. To relate the partner's name to the partner's history would require researching a number of different sources, some of which are centralized such as SEC filings, and others of which, such as involvement in disciplinary proceedings, are not centralized and some may not even be publicly available. And, the information may be inconclusive; for example, lack of prior experience as an engagement partner does not indicate lack of industry expertise. And, involvement in disciplinary proceedings or other litigation does not necessarily bear on the competence of the engagement partner, especially if there has not been any conclusive adverse determination.

So, the name of the engagement partner would only provide a starting point for other research that might be done to establish the databases or other compilations suggested by the PCAOB in this Question. The time to do this research and cost of it could be significant. This could lead to calls for expanded disclosures or some other method to mitigate the need for research, and that consequence would be preposterous.

What quite possibly could happen is that the information would spawn a new industry which accumulates and analyzes the data and takes it upon itself to make recommendations, similar to the activities of proxy advisory firms which have sprung up over the past several decades. But, this information may be subject to errors, and there would need to be some mechanism for the engagement partner or the related firm to vet the information. We question whether a feasible mechanism to accomplish all of this in a timely manner could ever be established.

And instead of investors or other users performing their own analyses, they will default to the recommendations of those firms, similar to what is currently happening with advice from proxy advisory firms. Analysis then would be in the hands of a relatively few entities, with a serious question of whether the recommendations of those firms serve any public interest. Of course, they will charge subscribers for use of their information, and those charges will eventually work their way into the economy as additional costs to consumers.

a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

   No, for the reasons stated in the Committee's response to Questions 1, 2 and 3 above.

b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

   No, for the reasons stated in the Committee's response to questions 1, 2 and 3. above.

4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

See the Committee's response to Question 3. This requirement, as reproposed, is of even less use than disclosure of the name of the engagement partner, which the Committee considers to be useless. Most of the information that might be tracked for firms headquartered in the U.S. is already available periodically from the financial press. Any disclosure of affiliated firms upon which the primary auditor relies will be largely repetitious, especially considering that about 90% of registrants are reportedly audited by the four largest international firms. Further, disclosure of the names of firms when the primary auditor is taking responsibility for their work, whether an affiliated or non-affiliated firm, seems irrelevant to the Committee.

While the PCAOB has stated the reproposed amendments are not intended to change the performance requirements of registered public accounting firms, The Committee suggests the PCAOB evaluate the need to modify AU Section 543 *Part of Audit Performed by Other Independent Auditors* to address whether AU 543 ought to be modified to establish an objective and quantifiable measurement standard by which the other auditor must be disclosed in the audit report of the principal auditor. This would be in lieu of the PCAOB's percentage threshold for disclosure of other participants in the audit set forth in the reproposed amendment. The Committee believes there is some validity to disclosing the names of other firms participating in the audit in certain circumstances, but that disclosure should be based on the requirements of AU 543. Otherwise, the Committee is not in favor of disclosing such information, for the reasons stated in the Committee's response to Question 1.

The Committee is aware of the publicity concerning the quality of audits performed by auditors located in foreign countries, be they foreign offices of U.S. firms, foreign affiliates of U.S. firms, or firms not affiliated with the primary U.S. auditor. The Committee is also aware that the PCAOB has had difficulty in including those audits and the related auditors in its inspection program. The PCAOB inspection problem has led to increased confidence in registered firms subject to inspection. Use of offices, firms or individuals not subject to PCAOB inspection may appropriately be of interest to investors and other users of financial data, and we recommend that the PCAOB consider rules to require the extent of their participation in an audit.

The Committee does not see any merit to the disclosure of firms to which the primary auditor does not make reference unless such firms are excluded from the PCAOB's inspection program and their participation is above a specified threshold. If the primary auditor already makes reference to the other firm, disclosure of that firm's name should be required, as it already is. If no reference is made and the firm is subject to the primary firm's quality control policies and procedures, including timely review of their work as appropriate, there is no merit to disclosing the firm's name.

Disclosure of the names of other participants to which the primary auditor does not make reference and therefore take responsibility for their work would potentially cause confusion about the degree of responsibility undertaken by the firm issuing the audit report. In addition, companies engaging auditors are often reluctant to engage an auditor who will refer to other auditors in its report, and can be equally reluctant to tolerate the proposed disclosures where there is no divided responsibility. This would be particularly troublesome to smaller registered accounting firms who do not have national or international coverage.

5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

No, for the reasons stated in the Committee's response to Questions 1 and 3.

6. Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

As stated in the Committee's response to Questions 1 and 2 above we are unaware of any empirical evidence to support the proposition that disclosure of the name of the engagement partner (as opposed to the obvious disclosure of the audit firm, or firms) would clearly produce a higher quality of information enabling a user of the financial statements to make a more informed decision about the overall quality of the audit, and thus promote more effective capital allocation. Any statement about more efficient capital allocation at this time would seem to the Committee to be pure conjecture. Users of financial statements can access the PCAOB's publicly available records of registered public accounting firm's annual reports and inspection reports. Such information can readily speak to the overall quality of the firm's audit practice through the inspection report, and identify the names of the firm's public clients (which can lead to an understanding of industry specializations, etc.) through the annual report.

7. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

The Committee believes the qualitative aspects that providing information about the engagement partner, and the depth of the engagement team's experience, including those of other participants, is already being made available and considered by those in corporate governance responsible to engage the audit firm. Therefore, such information is already a significant factor in promoting competition among audit firms. The PCAOB's current proposal with have no meaningful impact on either promoting or inhibiting completion among audit firms, except, as pointed out in our response to Question 4, companies engaging auditors are often reluctant to engage an auditor who will refer to other auditors in its report, and can be equally reluctant to tolerate the proposed disclosures where there is no divided responsibility. This would be particularly troublesome to smaller registered accounting firms who do not have national or international coverage.

8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

In the simplest engagements where one engagement partner is truly involved and responsible for the entire audit, the name the engagement partner may be of some interest (although we question its value). In more complex engagements, even though one individual is ultimately designated "engagement partner" the reality is quite different and no really valid conclusions can be drawn about that one individual as that person is forced to rely on the work of perhaps many other partners and other participants.

9. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

While the Committee does not support the proposed required disclosure of the engagement partner, it does not see the imposition of any significant additional direct costs to the audit firm or the audited entity, regardless of whether they are an EGC. However, see the Committee's response to Questions 3 and 10.

10. What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

The Committee believes it is wholly inappropriate for the PCAOB to open the door to the innumerable legal issues concerning the application of the Securities Laws, especially Section 11 Securities Act liability which arises if the individual engagement partner is named in the auditor's report, and Section 10(b) and Rule 10b-5 of the Exchange Act liability for materially untrue statements deemed to be made by the individual engagement partner in the auditor's report. The Committee questions whether the PCAOB fully appreciates the legal and litigation aspects of its proposal, especially after seeing statements such as the following in the PCAOB Release:

> "The fact that the engagement partner would be subject to Section 11 liability, however, might provide investors with some additional comfort about the engagement partner's work on the audit."

> "Because an engagement partner's liability would be, at most, coextensive with that of the firm, adding the engagement partner as a defendant should not increase the amount a court could award to investors. A court might hold the engagement partner liable, jointly or severally with the firm, for those same damages, but in most cases the accounting firm will have greater resources to satisfy a judgment than will any individual partner."

> "For one thing, consents from engagement partners in an audit should not increase the number of lawsuits filed, though it may increase the number of defendants in any lawsuit that would have been filed anyway."

And finally:

> "If the reproposed amendments are adopted, the Board would also monitor the rule for some time after it became effective, if the repurposed disclosure requirement leads to an increase in litigation against either engagement partners or other participants in the audit that results in negative effects on audits of public companies, the board can revisit it."

While the Committee has no securities lawyers among its members, it is clear to those Committee members with public clients the Board appears willing to "experiment" on the named engagement partners and is uncertain of the impact. The United States is the most litigious country in the world, and it is clear that substantial costs, both to the firm and the individual engagement partners is unpredictable, difficult to control or mitigate through increased insurance or other means.

In our letter of December 21, 2011, we submitted the following comment dealing with this question on the PCAOB's Concept Release No. 2011-007:

As the Concept Release points out, naming the engagement partner or having the engagement partner sign the report may, in the views of some, open up the engagement partner to additional legal liability. Unfortunately, the legal determination may well depend on the outcome of litigation, which is expensive, and the results may be inconsistent from state to state and among federal circuits.

There is nothing in the current proposed amendments that ameliorates the Committee's concerns. Even if the engagement partner technically has no additional liability if named, in the litigious environment in the U.S., it is more likely that the engagement partner would be named in a suit if his name appears as part of the audit report. This would cause an increase in costs, especially if the engagement partner decides to engage his or her own individual counsel.

Not discussed in the proposed amendments is the potential litigation exposure of other firms or persons named as participants in the audit even though the firm signing the audit report takes responsibility for that firm's or person's work. The issues are very similar to those related to the naming of the engagement partner.

The answer to this question requires a legal determination, but the Committee doubts that there is a clear answer since it is a new issue with no law directly on point. This legal determination is beyond the expertise of many accountants and auditors, state CPA societies, academics and investors who can be expected to comment on the Proposal. The PCAOB should reach out to its legal advisors for information on this question, but it is one that definitely needs to be answered before any aspect of the proposal is implemented.

It is not apparent that the PCAOB has resolved the question cited in our earlier comment, and until it is resolved, the Committee believes it is totally inappropriate to enact the reproposed requirements. We recognize there may be no clear answer, in which case, this is yet another reason why the reproposed amendments should be withdrawn.

As to costs, while it may be difficult to gauge the effect of the reproposed disclosures on auditor liability, the uncertainty is likely to affect insurance costs for the firms, as they normally indemnify partners. Firms can be expected to pass any such costs on to clients through increased fees.

The Committee suggests that if the PCAOB concludes, contrary to the Committee's recommendations, that the engagement partner be identified, that it be done in the Form 2 filed with the PCAOB. While a legal determination might be necessary, we believe this form of disclosure may avoid the need for the engagement partner to consent to the use of his name in the registrant's filings with the SEC., and thereby partially mitigate our concerns.

11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

No. The Committee sees no incremental benefit arising from the consent requirement, as the engagement partner and his team are already ethically responsible for conducting the audit in accordance with the existing audit requirements and there are already sufficient incentives to comply with those requirements. If the PCAOB feels there are inherent inadequacies within the existing PCAOB auditing standards and interim auditing standards, it should seek to remedy those deficiencies.

The Committee believes that the there may be a perception of greater risk in relation to EGCs to the extent that they are unproven entities.

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

The Committee does not believe the reproposed amendments will increase the engagement partner's sense of accountability. The engagement partner is just as liable for his/her actions whether or not his/her name is in the audit report. See our response to prior Questions, especially Questions 1 and 11.

There is a potential and insidious side effect of naming the engagement partner. Audit partners are already subject to a high level of regulatory scrutiny; some liken it to "walking around with a target on my back." This is already discouraging smaller firms from auditing public entities, and causing some of the best personnel in larger audit firms to seek careers in taxes, consulting and other non-audit alternatives, or to leave public accounting entirely. If this continues, audit quality could very possibly suffer if the audit practice is no longer able to attract and retain the best individuals.

13. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

As discussed in the Committee's response to Question 4, the PCAOB should address the issue of the significance of the use of other auditors by revisiting AU Section 543, instead of imposing the rather arbitrary percentages for determining the materiality of the other participants. Notwithstanding this overall comment, the only significant incremental costs that the Committee sees concern costs related to securing consents from other participants and potential insurance costs. This disclosure should not have any different cost impact to EGC's or their auditors.

14. What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

See the Committee's response to Question 10; the potential legal and litigation issues are basically the same for other firms as they are for engagement partners.

Assuming the PCAOB addressed the issue of significance of the use of other auditors by revisiting AU Section 543, instead of imposing the rather arbitrary percentages for determining the materiality of the other participants, if the other participant was a material contributor to the overall audit, they would have to bear the cost of dealing with the consent requirements and attendant legal risks under the Securities' Laws.

Many of the firms to be named will be foreign. The Committee does not know whether foreign firms will be willing to be named and consent to their being named, and whether there are, or may be in the future, local statutory prohibitions against compliance with the PCAOB reproposed disclosures.

The naming of a foreign firm simply because they are foreign, which will be the case for international firm's affiliates, will likely be negatively viewed by foreign firms and foreign governments. If there is good reason, such as exclusion from PCAOB inspections or reference in the primary auditor's report, that may be acceptable. But, in an environment where greater "internationalization" is occurring, including in auditing standards, a blanket requirement to name all foreign firms could be very counter-productive.

It is reasonable to expect that those costs will be passed on to the audited entity. In addition, being named, with the related consent, will potentially subject those firms to securities acts liabilities to a greater extent than they are now. There will likely be insurance and other costs flowing from this and costs of that will likely be passed on to clients. Amounts of those costs are not known, and we suggest the PCAOB take meaningful steps to determine those costs as part of the cost-benefit analysis of the reproposed disclosures. The costs are likely to me more tangible that the perceived benefits of the reproposed disclosures.

15. Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

No, for the reasons stated in the response to Question 11.

16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

As discussed in the Committee's response to Question 4, we recommend the PCAOB establish better criteria for determining the materiality of other participants in the audit by revisiting AU Section 543, instead of implementing a disclosure requirement based on a percentage evaluation of audit hours. In the event the PCAOB does not do as we suggest, we would recommend the use of a range, rather than as a specific number, be adopted. In either case, the nature of the disclosure should have no material impact on any costs incurred by the lead audit firm in preparing the audit report.

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

Please refer to the Committee's response to Question 16 for our overall comments regarding the PCAOB's proposed use of specific percentages, which we do not find to be relevant.

If specific percentages are used, we recommend a threshold of no less than 10%. Disclosures below that threshold would be for such a small part of the audit as to be meaningless.

18. Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

    a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?

    No, Foreign offices of the primary audit firm are assumed to be operating under the same internal policies and procedures as the U.S.-based office; therefore, separate disclosure is irrelevant. Most foreign locations of primary auditors in the U.S. are separate legal entities, so any relief that the PCAOB thinks it may be granting by permitting foreign offices to be considered part of the "firm" is not significant. In addition, if the primary auditor is taking responsibility for the work of a non-affiliated firm, there is no need to mention that.

b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

See response to Question 18.a above. The reproposed requirement is stated clearly, but the Committee does not believe it is appropriate.

19. Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

No. The same disclosure standards related to ownership structure and consistent application of internal policies and procedures should be applied in evaluating shared responsibilities among component members of an alternative practice structure.

20. Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

No. The Committee does not believe that disclosure of "engaged specialists" will provide investors and other users of financial statements with incrementally useful information, and such information should not be disclosed.

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

While cost considerations should not be significant, the Committee sees no value to this disclosure.

21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

No. Refer to the Committee's response to Question 20 a.

22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

As stated in our responses to the above questions, the Committee is strongly opposed to the disclosure of the engagement partner and certain information about other participants as being irrelevant to investors and other users of the financial statements. However, if notwithstanding the Committee's recommendations, the PCAOB decides to require disclosure of the name of the engagement partner, the Committee would support disclosure of the name of the engagement partner on Form 2 or other PCAOB reporting form. The Committee would not support the disclosure of the other participants in any manner on Form 2 or other PCAOB reporting form based on the reproposed requirements. The Committee believes that any disclosure of other participants be based on a comprehensive review of AU 543; further, the Committee sees merit to the PCAOB considering rules to require disclosure of the extent of participation in an audit of offices, firms or individuals not subject (i.e., excluded from) the PCAOB inspection program.

23. Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

The Committee sees no basis for differentiation between brokers and dealers and other registrants. The Committee opposes the disclosure of this information for the audits of brokers and dealers for the same reasons set forth in our responses to the other questions.

24. Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

The Committee sees no basis for differentiation between EGCs and other registrants. The Committee does not support the application of the reproposed disclosure requirements to non-EGCs as well as EGCs.

25. Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

Please refer to the Committee's response to Question 24 above.

* * * * * * * *

We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

Michael D Feinstein

Michael D. Feinstein
Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants

Dear PCAOB:

Docket No. 029 Comments Submitted – Feb. 3rd, 2014

Good afternoon and we made the deadline, although it wasn't easy…..but we won't bore you with the grimy details, at this point in time…

Please Note: The following is only intended to help you all along on your efforts to improve a rather remarkable industry.

For Example: Terms Used or Not Within PCAOB Docket No. 029, Feb. 3rd, 2014......:

- Use Case - 0
- COSO - 0
- COBIT - 0
- Fines - 0
- Penalities - 0
- Sample Test - 0
- Best Practices - 0
- Fraud - 4 or 5 (with 3 being referenced citations)
- Risk Assessment - 0
- Risk Analysis - 0
- Governance - 0

Section VII Response:

Questions 1 thru 25

Yes when the solution comes down on the side of the investor community and No when it does not favor the Investor community (in all instances) and how this would be accomplished is via a series of quantitative analysis, peer review and independent testing available for a three month 'Comments' window, followed by a Six month trial period using volunteer entities who can see the value in this effort.

Lastly, two notes, one regarding Libor:

Thank gaud both the internal & external auditors uncovered this on-going and massive fraud involving the following (and growing list) of entities:

- ICAP
- RBS
- JP Morgan
- Deustche Bank
- Societe Generale
- UBS
- Citigroup
- Rabobank.....et al......

We appreciate your efforts in providing a more level playing field for the investor community, and in the same vein of sharing, please note the following view of the Dodd-Frank Volker Rule analysis:
Dodd-Frank Act / Volker Rule_2014

References Made to the Following Terms or Not - Within The Volker Rule, 2014:

- PCAOB - 0
- COSO - 0
- COBIT - 0
- Fraud - 12 (give or take a few)
- Audit - 45 (with caveats)
- Exemption - 10,000 instances and counting....big enough to satisfy anyone with a dark heart....

and reasons provided were comprised of the Dark Triad of;

- Higher Costs,
- Negative Economic Impact and our favorite
- Liability

rather than those associated with the ole fashioned psychological Dark Triad comprised of;

- Narcissistic,
- Machiavellian,
- Psychopath

Please Note: Never, ever go on a date with the latter Dark Triad…….never.

The reference to "audit" does not mean that the independent testing must be performed by a designated auditor, whether internal or external.

Page 777

The Agencies believe it would be unnecessarily burdensome to require particular licensing and registration processes for internal auditors that are specific to section 13 of the BHC Act.

Page 805

Accordingly, the information contained in these metrics is retained in the final rule while the burden associated with computing, auditing and reporting these additional metrics on an ongoing basis has been eliminated.

Page 844

(4) Independent testing and audit of the effectiveness of the compliance program conducted periodically by qualified personnel of the banking entity or by a qualified outside party;

Page 941

Subject the effectiveness of the compliance program to periodic independent review and testing, and ensure that the entity's internal audit, corporate compliance and internal control functions involved in review and testing are effective and independent;

Page 954

The proposed definition of material conflict of interest did not address instances in which a banking entity has made a material misrepresentation to its client, customer, or counterparty in connection with a transaction, class of transactions, or activity, as such transactions or activity appears to involve fraud rather than a conflict of interest. This is because such misrepresentations are generally illegal under a variety of Federal and State regulatory schemes (e.g., the Federal securities laws).1554 In addition, the Agencies noted that any activity involving a material misrepresentation to, or other fraudulent conduct with respect to, a client, customer, or counterparty would not be permitted under the proposed rule in the first instance.

Page 451

That's about it for now….do keep up the good effort as it can only improve a system deserving of your attention….

In closing, our best wishes, too….

Respectfully yours,

Pw Carey

3

PCAOB Comments Letter Re: Docket No. 029 Responsibility & Transparency, Deux_March 17th, 2014

In the land of the Rogue Trader's, Shadow Banks, & Black Money.....There is no disconnect.....

In the land of the Rogue Trader's, Shadow Banks, & Black Money.....There is no disconnect.....its quite simple really....

- Based upon 8,121.6 referenced citations regarding lack of follow-up and prosecution in documented cases of fraud, which you all are free to look up, if, you so choose. However, since we're a professional, we don't have to.

Please Note:

1. Nothing suspicious here: After five (5) IT C-Suite Financial Investment blokes committed suicide during the first quarter of 2014, according to the police..."nothing suspicious here....." So....

The boss man needs the product to ship by close of business tonight....

You tell boss man that the product isn't ready to ship....there's several bugs that need to be fixed first, bugs that are causing the battery to overheat and sometimes explode....for no apparent reason......

After listening to your story in a very somber and professional listener silence....the boss man says.....to meet our numbers for the quarter, this product must ship by COB tonight.....and walks away.....

- So, what was just said to the head of the development team.....?
    - Please feel free to fill in the blanks
- The same dual-messages that have been part and parcel of the regulatory landscape since God invented Whiskey.....

Say one thing publically, do another privately....(aka: based upon a couple of minutes of research, the words don't match up with the actions, either real or imagined)...

2. As a result, with a burn rate of hundreds of thousands of dollars an hour per entity, the windows for fraud will always remain unlocked and wide open for those who understand they're operating in a world with two sets of books....
3. (aka: an off-book GL (General Ledger), what is really being said in-line with party line....
4. if you're a perp you just need to understand the rules of these Shadow Regulations. Fines & Penalties make good copy---jail time don't.....

5. and for heaven's sake pay attention to The Shadow Rules & Regulations.....
6. be polite,
7. always supportive, and
8. always, always acquiesce then return to what you've always done before, just don't get caught, and
9. since you're operating in a George Orwellian world of 1984...a token here, a token there....just enough to be reasonably defensible, just don't rock the boat, too much and we'll all be able to just get along famously......don't you agree?
10. or in a relativistic world filled with Unsicherheit (uncertainty)...there is no black-n-white and there will always be just one rogue cockroach in the financial kitchen...and never ever will you see the following two rules:

If you do do the following; (e.g. lie, cheat and/or steal) you will forfeit all personal assets linked to the frauds you perpetrated....

If you don't do this (e.g. lie, cheat & steal) you will not be obliged to face personal financial ruin for the next ten years of your life....(e.g. the meter begins at year zero and ends after year ten, without interruption and/or modification).

Summary

In conclusion....there is no such thing as fraud....fraud does not exist....never did, never will….there are only bad business decisions, sorta like the official police pronouncements whenever faced with a bit of a rough patch....nothing suspicious here, eh...

- Oh yes, and Happy Saint Patrick's Day, too....

Official Professional Disclaimer

The previous crumpled up diatribe was found somewhere within an executive's office suite or some such place and we just thought it might be food for thought, when initial first steps go a tad further. However, this in no way represents anyone's professional advice and or guidance. Anyone interested in further discussions should definitely seek professional help---from a true professional, in such matters.

Respectfully yours,

Pw Carey

Senior IT Auditor (GRC), CISA, CISSP

Ballyronan

(County Londonderry

PCAOB

Public Company Accounting Oversight Board

1666 K Street, NW
Washington, D.C. 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

IMPROVING THE TRANSPARENCY OF AUDITS: PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS TO PROVIDE DISCLOSURE IN THE AUDITOR'S REPORT OF CERTAIN PARTICIPANTS IN THE AUDIT	PCAOB Release No. 2013-009 December 4, 2013 PCAOB Rulemaking Docket Matter No. 029

Summary: The Public Company Accounting Oversight Board ("PCAOB" or "Board") is reproposing amendments to its standards that would improve the transparency of public company audits. The amendments would require (1) disclosure in the auditor's report of the name of the engagement partner and (2) disclosure in the auditor's report of the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and the locations and extent of participation of other persons not employed by the auditor that took part in the audit.

Public Comment: Interested persons may submit written comments to the Board. Such comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to comments@pcaobus.org or through the Board's website at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 029 in the subject or reference line. Comments should be received by the Board no later than 5:00 p.m. EST on February 3, 2014.

Board Contacts: Jennifer Rand, Deputy Chief Auditor (202/207-9206, randj@pcaobus.org); Jessica Watts, Associate Chief Auditor (202/207-9376, wattsj@pcaobus.org); Lisa Calandriello, Assistant Chief Auditor (202/207-9337, calandriellol@pcaobus.org); and Ekaterina Dizna, Assistant Chief Auditor (202/591-4125, diznae@pcaobus.org).

* * *

Summary of Comments on Microsoft Word - PCAOB Release No. 2013-009 - Transparency.docx

Page: 1

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014
Date: 3/13/2014 8:40:09 AM

Dear PCAOB:

Good morning, and thank you for this opportunity to share with you some minor comments regarding the transparency and disclosure upgrades within an audit and the audit report...as we appreciate all your efforts in attempting to apply a greater emphasis on (fair play) within our market economies, as opposed to todays long term adherence to The Dark Triad's corporate culture that defines success today...

Please Note: Your (guidance, out reach & advisory efforts) directly supporting these standards and proposals must be increased to have any meaningful value to the various investment communities....at least, that's our opinion....more or less....caveat, caveat, & caveat.....Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

See Appendix A: For supporting reference citations...

Number: 2 Author: Pw_Carey_Senior IT Auditor, GRC Risk, Security & Fraud, (CISA, CISSP) Subject: Highlight Date: 12/23/2013 7:06:38 AM -05'00'

Number: 3 Author: Pw_Carey_Senior IT Auditor, GRC Risk, Security & Fraud, (CISA, CISSP) Subject: Highlight Date: 12/23/2013 7:06:53 AM -05'00'

PCAOB
Public Company Accounting Oversight Board

I. Introduction

The Board is reproposing amendments to its auditing standards that would require the accounting firm issuing an auditor's report ("auditor") to disclose in the auditor's report (1) the name of the engagement partner on the most recent period's audit and (2) the names, locations, and extent of participation of other public accounting firms[1/] that took part in the audit and the locations and extent of participation of other persons (whether an individual or a company)[2/] not employed by the auditor who performed procedures on the audit ("other participants in the audit"). These are disclosure requirements and, except for the disclosure obligations they would impose, would not change the performance obligations of the auditor in conducting the audit. The Board believes that providing information about the engagement partner and the other participants in the audit in the auditor's report would be useful to investors and other financial statement users and would be consistent with the Board's mission to further the public interest in the preparation of "informative, accurate, and independent audit reports."[3/]

Robust disclosure is the cornerstone of the U.S. federal securities regulatory regime and is essential to efficient capital formation and allocation. Access to meaningful information about a public company allows investors to make informed judgments about the company's financial position and about the stewardship of the company's directors and management. The Board believes that more disclosure about certain aspects of the audit of a public company, including about the identity of the engagement partner and other firms associated with the audit, would add to the mix of information that investors and other financial statement users have about public companies, which they would find useful.

Auditors perform a crucial public function in financial markets. Their very designation as independent public accountants recognizes that their duties transcend their responsibilities to the companies they audit. The salutation of the auditor's report

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1/ PCAOB Rule 1001(p)(iii) defines the term "public accounting firm" to mean "a proprietorship, partnership, incorporated association, corporation, limited liability company, limited liability partnership, or other legal entity that is engaged in the practice of public accounting or preparing or issuing audit reports."

2/ PCAOB Rule 1001(p)(iv) defines the term "person" to mean any natural person or any business, legal or governmental entity or association.

3/ Section 101(a) of the Sarbanes-Oxley Act of 2002.

Page: 2

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 8:05:00 AM

Since 87.654321 % of all detected frauds, across all industries, geographical locations and jurisdictions take place within a window of between 4 years, 7 years thru 15 years....this requirement must be increased to have any meaningful value to the investment community....at least, that's our opinion....more or less....caveat, caveat, & caveat.....Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 7:44:57 AM

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 8:23:53 AM

Please include a more robust F&P/P&P Section (Fines & Penalties/Protection & Publication) specifying the costs of bad behavior including jail time for such offenses without the benefit of hiding behind Contract Law/Non-Disclosures, et al, when convicted of committing fraud, with FP/PP ameliorations
available (we hardly ever get to use this word) if the perps are forth coming during a forensic audit (slash) investigation (slash) Inspection.....this requirement must be increased to have any meaningful value to the investment community....at least, that's our opinion....more or less....caveat, caveat, & caveat.....Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

*****End of Caveats*******

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 8:06:50 AM

Their duties transcend their responsibilities to the companies they audit as well as their boss, (aka: their employer, who hired them to conduct audits in the first place). at least, that's our opinion....more or less....caveat, caveat, & caveat.....Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 7:58:31 AM

itself, when it is addressed to the shareholders,[4/] emphasizes the public nature of the auditor's responsibility. The public, however, has had little or no information about the participants in the audit, including those who serve in the role of engagement partner or the identity of other firms and individuals who participated in the audit. Generally, in the United States, only the name of the firm that issued the opinion is disclosed in the auditor's report.

An audit firm's reputation matters, both to investors and to the audit committee of the company that retains it. But firms are comprised of individuals who conduct the audit, and investors in U.S. securities generally have not had access to information about the engagement partner responsible for the audit for the firm or whether, and to what extent, other firms played a role in the audit. This information could be valuable to investors in making investment decisions as well as if they are asked to vote to ratify the company's choice of registered firm as its auditor.

While the present lack of transparency about the persons who conduct the audit is not unique to the United States, a number of other jurisdictions with highly developed capital markets follow a different practice. For example, the European Union's ("EU's") Eighth Company Law Directive requires "at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm" to sign the auditor's report.[5/] This directive requires all EU members to enact conforming legislation.[6/] For example, one EU member, the United Kingdom, requires the auditor's report to "state the name of the

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[4/] Based on the PCAOB staff's review of 125 Form 10-K filings for fiscal year 2011, approximately 95% of auditors' reports were addressed to shareholders or other investors in the company; approximately 5% were not. To promote consistency in the addressees included in the auditor's report, under the *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments*, PCAOB Release 2013-005 (August 13, 2013) available at http://pcaobus.org/Rules/Rulemaking/Docket034/Release_2013-005_ARM.pdf, the auditor would be required to address the auditor's report to investors in the company, such as shareholders, as well as the board of directors or equivalent body.

[5/] Directive 2006/43/EC of the European Parliament and of the Council, Article 28, Audit Reporting (May 17, 2006) available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006L0043:en:NOT.

[6/] As of November 2013, 27 of the 28 EU members have enacted conforming legislation. Croatia, which joined the EU in 2013, has until 2015 to enact conforming legislation. A list of countries which have enacted conforming legislation is available at http://ec.europa.eu/internal_market/auditing/directives/index_en.htm.

auditor and be signed" and, "where the auditor is a firm, the report must be signed by the senior statutory auditor in his own name, for and on behalf of the auditor."[7] Other countries have similar requirements. For example, Taiwan requires audit partners to sign the auditor's report, in addition to the audit firm.[8] Australia mandates by statute that the auditor's report be signed in the name of the person responsible for the audit, as well as in the name of the audit firm.[9] The International Auditing and Assurance Standards Board ("IAASB") also recently proposed a requirement for firms to disclose the name of the engagement partner in the auditor's report of a listed entity.[10] If the IAASB's proposal is adopted, disclosure of the engagement partner's name in the auditor's report of a listed entity will become the norm in those jurisdictions that follow IAASB standards. While practice in other countries is not dispositive, it is indicative of a global trend toward greater transparency about audits and those who conduct them.

From its Investor Advisory Group ("IAG") and Standing Advisory Group ("SAG"), as well as from meetings with investors and other financial statement users, the Board has heard repeatedly that many people, particularly investors, want more information about the independent audit, such as information about those who conduct it. The Board believes that there are benefits to greater transparency about the audit and has attempted to respond through several initiatives, including the recently proposed standards dealing with changes to the auditor's reporting model[11] as well as these

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[7] Companies Act 2006, Chapter 46, as amended, Chapter 3, section 503, "Signature of auditor's report" (June 4, 2008). The Companies Act requires a signed auditor's report be maintained by the company, although published copies of the auditor's report state the name of the engagement partner and do not require signature.

[8] See Articles 2 and 6 of Regulations Governing Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies (as amended on May 16, 2008) available at http://eng.selaw.com.tw/ShowNews.asp?LSID=FL007023.

[9] Corporations Act 2001, Act No. 50 of 2001, as amended, section 324AB(3), "Effect of appointing firm as auditor—general" (May 16, 2012).

[10] See IAASB's exposure draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing*, at https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international.

[11] See *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments*,

reproposed amendments. The Board believes that disclosure of the identity of the engagement partner, as well as enhanced transparency about other participants in the audit, would provide investors with information about the audits conducted for their benefit that they would find useful. The Board also recognizes that many investors as well as some other commenters believe that these measures would prompt engagement partners to perform their duties with a heightened sense of accountability to the various users of the auditor's report.[12/]

After careful study and deliberation, the Board believes that disclosure of the engagement partner and other participants in the audit would provide investors in U.S. companies with important information about the audits conducted for their benefit. The Board reached the decision to repropose these amendments, not just based on the extensive public comment it has received as it explored this issue, but also based on what the Board has learned through its oversight activities and relevant empirical research.[13/]

The Board is reproposing the amendments to seek additional comment on matters such as the usefulness of the information that would be required to be disclosed, the potential costs the reproposed amendments might impose, whether the reproposed amendments would have any effect on competition, and any other aspects of the reproposal. The Board has also made technical changes to the originally proposed requirement that the auditor disclose information about other participants in the audit, such as changing the threshold for disclosure, and seeks commenters' views on those revisions. Finally, the Board is soliciting commenters' views regarding whether the reproposed amendments should apply to audits of emerging growth companies

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PCAOB Release 2013-005 (August 13, 2013) available at http://pcaobus.org/Rules/Rulemaking/Docket034/Release_2013-005_ARM.pdf.

[12/] See U.S. Department of the Treasury's Advisory Committee on the Auditing Profession ("ACAP"), *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* ("ACAP report"), VII:19-VII:20 (October 6, 2008), available at http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf. The IAG also discussed this at its May 4, 2010 and October 16, 2013 meetings. See the summary of the May 4, 2010 meeting available at http://pcaobus.org/News/Events/Pages/05042010_IAGMeeting.aspx and the IAG meeting details, transcript, and webcast for the October 16, 2013 meeting available at http://pcaobus.org/News/Webcasts/Pages/10162013_IAGMeeting.aspx.

[13/] See discussion of empirical research in Section V., *Economic Considerations*.

Page: 5

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:05:36 AM

Is it true that no oversight is better than oversight.....?

perhaps on an animal farm, but not here when folks are making investment decisions based upon virtual ware....
not hardware, not software but imaginary ware.....

amazing, simply amazing...this requirement must be increased to have any meaningful value to the investment community....Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 8:42:05 AM

("EGCs"), as that term is defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act").[14] In particular, the Board requests comments, including any available empirical data, on whether application of the reproposed amendments to audits of EGCs would protect investors, and on whether it would promote efficiency, competition, and capital formation. Specific questions appear at the end of this release.

II. Background of the Reproposed Amendments

A. Disclosure of the Name of the Engagement Partner

The Board began in 2005 to seek advice on and to explore a variety of alternatives to make the auditor's report more informative, including by requiring disclosure of the name of the engagement partner.[15] In addition to the Board's efforts, in 2008, the ACAP issued its final report recommending, among other things, that "the PCAOB undertake a standard-setting initiative to consider mandating the engagement partner's signature on the audit report." The ACAP report stated that "[t]he Committee believes that the engagement partner's signature on the auditor's report would increase transparency and accountability."[16]

Based on more than ten years of oversight, the Board knows that, even within a single firm and notwithstanding firm-wide or network-wide quality control systems, the quality of individual audit engagements varies. PCAOB inspectors have observed a wide variation in the quality of auditing by many engagement teams at each of the large accounting firms that audit the largest U.S. and multinational companies. Although such differences might be due to a number of factors, the role of the engagement partner, who is responsible for the engagement and its performance, is an important factor to consider.[17]

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[14] Pub. L. No. 112-106 (April 5, 2012).

[15] The SAG discussed requiring the disclosure of the engagement partner through signing the auditor's report in February 2005, June 2007, October 2008, and October 2009. Transcripts of the relevant portions of the SAG meetings are available at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx. The IAG also discussed this at its May 4, 2010 meeting. See the summary of the May 4, 2010 meeting available at http://pcaobus.org/News/Events/Pages/05042010_IAGMeeting.aspx.

[16] See ACAP report at VII:20.

[17] See paragraph 3 of Auditing Standard No. 9, *Audit Planning*, and paragraph 3 of Auditing Standard No. 10, *Supervision of the Audit Engagement*.

Through the Board's oversight process, it has obtained information related to engagement partner quality history through a firm's internal and external inspection processes, as well as a firm's internal processes to monitor its quality controls. The Board's inspection staff historically has used this information related to engagement partner quality history in its inspection processes. This information, among other factors, is considered to be useful in making risk-based selections of audit engagements. The Board's inspection staff also understands that individual firms monitor engagement partner quality history closely and utilize this information to manage risk to the firm. Information about individual audit partners has been useful to the Board in the Board's risk-based selection of audits to inspect. While the Board recognizes the reproposed amendments would not provide investors with all of the information the Board or a firm has regarding an engagement partner, the Board also believes that information about who engagement partners are would be valuable, and, as described below, would become more so over time.

On July 28, 2009, the PCAOB issued a concept release (the "2009 Release") seeking commenters' views on whether it would be advisable for the Board to require the engagement partner to sign his or her own name to the auditor's report.[18/] While many investors supported such a requirement, a number of other commenters were concerned that it would appear to minimize the role of the accounting firm in the audit and also could result in a potential increase in the engagement partner's liability.[19/]

After considering commenters' views and its own experience, the Board issued a proposing release on October 11, 2011 (the "2011 Release") that, among other things, proposed amendments to the Board's auditing standards that would have required disclosure of the name of the engagement partner in the auditor's report.[20/] In the

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[18/] See *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, PCAOB Release 2009-005 (July 28, 2009) available at http://pcaobus.org/Rules/Rulemaking/Docket029/2009-07-28_Release_No_2009-005.pdf.

[19/] Comments on the 2009 Release are available at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029Comments.aspx. Comments on the 2009 Release are discussed in the 2011 Release available at http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf.

[20/] See *Improving the Transparency of Audits, Proposed Amendments to PCAOB Auditing Standards and Form 2*, PCAOB Release 2011-007 (October 11, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf. The Board also proposed to require disclosure of other participants in the audit.

PCAOB
Public Company Accounting Oversight Board

Board's view, this disclosure approach retains most of the potential benefits of a signature requirement, while mitigating some of the concerns, particularly liability concerns, expressed by commenters on the 2009 Release.[21/]

The Board received 43 comment letters on the 2011 Release.[22/] It was also discussed at the November 2011 and May 2013 meetings of the Board's SAG[23/] and the October 2013 meeting of the IAG.[24/] Commenters on the 2011 Release were divided and remained so over the course of the dialogue. Accounting firms generally opposed a requirement to disclose the name of the engagement partner in the auditor's report[25/]—whether by signature or only disclosure—and expressed concern that it would confuse readers of the auditor's report or lead to unintended consequences. Investors, on the other hand, argued in favor of more transparency throughout the Board's consideration of the issue. Others, such as some audit committee members and corporate officials, as well as an association of European auditors, shared the investors' views and expressed the view that naming the engagement partner in the auditor's report would be beneficial.

After considering the comment letters, the views expressed in SAG and IAG discussions, and relevant empirical research, the Board is reproposing amendments to

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[21/] Id.

[22/] Comments on the 2011 Release and on the 2009 Release can be found at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029Comments.aspx.

[23/] Transcripts of the discussions are available on the Board's website at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx. Archived webcasts are also available on the Board's website at http://pcaobus.org/News/Webcasts/Pages/11092011_SAGMeeting.aspx and http://pcaobus.org/News/Webcasts/Pages/05152013_SAG.aspx.

[24/] See IAG meeting details, transcript, and webcast for October 16, 2013 available at http://pcaobus.org/News/Webcasts/Pages/10162013_IAGMeeting.aspx.

[25/] While accounting firms generally opposed the disclosure of the name of the engagement partner in the auditor's report, one accounting firm expressed support for disclosure of the name of the engagement partner in the firm's annual report filed with the PCAOB on Form 2. Some other firms, which opposed the disclosure requirement, expressed a preference for disclosure in Form 2 if the Board were to proceed with a requirement. Disclosure in Form 2 is discussed in Section V.C., Economic Considerations, Alternatives Considered, *Disclosure in Firms' Annual Reports Filed with the PCAOB on Form 2*, of this release.

its auditing standards that would require disclosure in the auditor's report of the name of the engagement partner in the most recent period's audit.

1 Specifically, the Board is reproposing to amend the following: AU sec. 508, *Reports on Audited Financial Statements*, AU sec. 9508, *Reports on Audited Financial Statements: Auditing Interpretations of Section 508*, AU sec. 543*, Part of Audit Performed by Other Independent Auditors*, Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*, and Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.[26/]

B. Disclosure About Certain Other Participants in the Audit

Investors also have called for greater disclosure in the auditor's report of the names and locations of other participants in the audit. For instance, in a March 2010 survey by the Chartered Financial Analysts Institute, 91% of respondents agreed that "in cases where there is more than one auditor, the identities and specific roles of other auditors should be disclosed."[27/] Additionally, a task force of the Board's IAG conducted a survey of investors affiliated with investment banks, mutual funds, pension funds, and hedge funds. Seventy percent of the investors surveyed who responded to a question about the desirability of disclosure of work on the audit performed by other audit firms said that they would like to know the degree of involvement in the audit of the firms that are not signing the auditor's report.[28/]

In many audit engagements, especially audits of companies with multiple locations and international operations, the auditor may perform only a portion of the audit. The remainder of the work may be performed by other affiliated accounting firms, non-affiliated accounting firms, and/or other persons not employed by the auditor, for example, consulting firms and individual accountants. The accounting firm issuing the

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26/ The reproposed amendments to these standards can be found in Appendix 1.

27/ See *Independent Auditor's Report Survey Results* (March 2010) available at http://www.cfainstitute.org/Survey/independent_auditors_report_survey_results.pdf.

28/ The IAG task force survey results were discussed in March 2011 in connection with a discussion of the auditor's reporting model. The response rate for the question regarding disclosing the work performed by other audit firms was approximately 67%. Event details and archived webcast for IAG meetings are available at http://pcaobus.org/About/Advisory/Pages/IAGMeetingArchive.aspx.

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 8:49:40 AM

auditor's report supervises the work of[29/] or assumes responsibility for[30/] the procedures performed by other participants in the audit. The Board has seen cases in which the extent of participation of other persons ranges from none to substantially all of the work. Although the portion of the audit work performed by other participants in the audit could be significant, under the current requirements, the auditor's report provides no information about the work performed by other participants in the audit. Instead, the auditor's report gives the impression that the work was performed solely by one firm—the signing firm.[31/]

In the 2011 Release, the Board proposed a series of amendments to its auditing standards that would have required, among other things, disclosure in the auditor's report about other accounting firms and other persons that participated in the audit.

Commenters supported, to varying degrees, the originally proposed requirement to disclose other participants in the audit. After considering the comment letters, the views expressed in SAG and IAG discussions, the Board's observations from its oversight activities, and relevant empirical research, the Board is reproposing amendments to its auditing standards relating to other participants in the audit but with certain modifications from the 2011 Release. The reproposed amendments would require the auditor to disclose in the auditor's report (1) the name, location, and the extent of participation (as a percentage of the total audit hours) of certain other independent public accounting firms and (2) the location and extent of participation of certain persons not employed by the auditor who took part in the most recent period's audit.

29/ See Auditing Standard No. 10.

30/ See AU sec. 543.

31/ Under existing AU sec. 543.04, when other auditors participate in the audit, the principal auditor "should not state in his report that part of the audit was made by another auditor because to do so may cause a reader to misinterpret the degree of responsibility being assumed." The reproposed amendments, like the originally proposed amendments, would delete this requirement and add a new requirement that the auditor expressly state that the auditor has assumed responsibility for or supervised the work of the other accounting firms who are disclosed in the auditor's report. In the Board's view, this should avoid any potential misinterpretation of the new requirement.

Specifically, the Board is reproposing to amend the following auditing standards: AU sec. 508, AU sec. 543, and Auditing Standard No. 5.[32/]

III. Discussion of the Reproposed Amendments

This section describes the general requirements of the reproposed amendments and significant changes made to the originally proposed amendments. Appendix 3 of this release discusses in greater detail the requirements of the reproposed amendments, comments received, and the Board's responses to those comments.

A. Disclosure of the Name of the Engagement Partner

The first part of the Board's reproposal would require audit firms to disclose in the auditor's report the name of the engagement partner for the most recent period's audit. The Board is cognizant that, initially at least, disclosure of an engagement partner's name, without more, might provide limited useful information because there may be little publicly available information about such individuals. Some commenters have suggested that over time with the reproposed disclosure requirements in place, a body of information about the engagement partner's history will be developed that, when connected with other data, would be useful to investors and other financial statement users.[33/]

For example, the disclosure of the name of the engagement partner, combined with other information compiled over time, could enable investors and other financial statement users to research the number, size, and nature of companies and industries in which the partner served as engagement partner. Investors and other financial statement users also could determine whether the engagement partner for a particular audit has any U.S. Securities and Exchange Commission ("SEC" or "Commission") or PCAOB disciplinary history. Investors and other financial statement users also could

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32/ The reproposed amendments to these standards can be found in Appendix 2.

33/ Such bodies of information are already being created, for example, in Taiwan where public companies are required to disclose the names of the engagement partners. As described in Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, *Capital Market Consequences of Individual Audit Partners*, Working paper (August 2013) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2321333, the Taiwan Economic Journal collects data that covers all public companies in Taiwan and includes, among other things, the names of the engagement partners, the accounting firm issuing the auditor's report, the regulatory sanction history of the partners, and the audit opinions.

determine the identity of the engagement partner during periods involving a restatement or issuance of an audit opinion with a going concern modification. The reproposed amendments would allow investors and other financial statement users to combine information about the engagement partner with other information regarding the restatement or the going concern modification. Academic research suggests that investors and other financial statement users would respond to the facts and circumstances related to individual restatements or going concern modifications when forming their views regarding the engagement partner.[34/] Investors do not treat all restatements and going concern opinions equally. Based on academic research, they appear to consider other factors in making judgments about restatements and going concern. The Board believes investors would be similarly discerning in considering information about the engagement partner.

Additional information also could become available in readily accessible formats about private litigation in which the individual was a defendant in his or her capacity as an engagement partner. Information also could become available about the engagement partner's education, honors, awards, service on professional and public bodies and publications. In some cases, such information is available today to audit committee members who ask for it and to whom it is given voluntarily (for example, in the course of interviewing a new engagement partner), but it is not readily available to the investing public or other financial statement users. The Board believes that despite the potential limited initial usefulness, public disclosure of the current engagement partner's name is a first and necessary step in the development of the type of robust information sources about engagement partners of public companies that would be useful to investors and other financial statement users.

The Board has heard concerns that public identification of the engagement partner could lead to a rating or "star" system resulting in particular individuals being in high demand to the unfair disadvantage of other equally qualified engagement partners. The Board is aware that, as a consequence of the proposed disclosures, certain individuals may develop public reputations based on their industry specializations, audit history and track records. The Board does not believe that such information would

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[34/] Academic research documents differences in the market impact of restatements and going concern opinions based on the specific facts and circumstances of the events. See, e.g., Susan Scholz, *The Changing Nature and Consequences of Public Company Financial Restatements*, The US Department of the Treasury (2008) available at http://www.treasury.gov/press-center/press-releases/documents/financialrestatements_1997_2006.pdf and Krishnagopal Menon and David D. Williams, *Investor Reaction to Going Concern Audit Reports*, 85 The Accounting Review 2075, 2075-2105 (2010).

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 8:58:51 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:04:20 AM

Dear Folks:

"....is a first and necessary step in the development of the type of robust information sources..." would be easily available to the general public and the investment communities at large....and such a mechanism could be set up via a Big Data/Cloud Eco-system data base utilizing auto-associated memory, quantum analytics web-based common sense...with the results published on a regular schedule, say....once a week or twice a month.....which ever comes first....yep, that would be nice second step.....

necessarily be harmful and could, to the contrary, be useful to investors and other financial statement users.

In recent years, detailed information about the backgrounds, expertise and reputations among clients and peers has become commonly available for other skilled professionals, such as lawyers and physicians, and such information is widely available to consumers of those services. Indeed, it can be argued that the consumers of such services can make more informed decisions with more rather than less knowledge about the qualifications and professional reputations of those whose services they retain. The role of an auditor, including an engagement partner, differs from that of a lawyer or physician, but the underlying principle that consumers of professional services could make better decisions with more information still applies and the Board believes that investors and other financial statement users would benefit from more information about the identity of those who perform audits.

Because the financial statements and the auditor's report are retrospective, disclosure of an engagement partner's identity in the auditor's report provides information only about the most recent period's audit of the financial statements. It does not provide information about the identity of the next period's engagement partner, which may be of most interest to shareholders, such as in ratifying the company's choice of registered firm as its auditor. 1 Nevertheless, such retrospective information 2 provides a basis for analysts, investors, and others to ask a company's management whether last year's engagement partner is continuing on the engagement and, if not, why not.[35/] A change in the engagement partner could prompt further questions about the identity and qualifications of the new engagement partner. Those questions could of course be asked today, but such questions and answers could be informed by additional public information about engagement partners.

Further, concerns have been expressed by some commenters that identification of the engagement partner puts misleading emphasis on a single individual when an 4 audit, particularly a large audit, is in fact a group effort. 3 Such commenters have asserted that the disclosure could confuse rather than enlighten investors. It is true that in most cases an audit is a group effort and that a large audit often involves a very large team. It is also indisputably true that the engagement partner plays a unique role in the audit. The engagement partner has the most direct relationship with the audit committee and senior management and serves as the primary interface between the audit firm and the audit committee and senior management. It is not unusual, in large companies at least,

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[35/] Engagement partners may change for a variety of reasons, including the SEC's requirement for mandatory partner rotation. See Section 203 of the Sarbanes-Oxley Act; Rule 2-01(c)(6) of Regulation S-X, 17 C.F.R. § 210.2-01(c)(6).

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:07:47 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:14:29 AM

Dear Folks:

What a great opportunity to set up a PCAOB Web-based Town Hall where on a weekly basis for the hoi-poli such as us...."....to ask a company's management whether last year's engagement partner is continuing on the engagement and, if not, why not.35/.....plus other questions of interest from the financial and investment communities.....such meetings (including archived meetings) is a truly magnificent idea.....wow....where'd this come from......?

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:14:54 AM

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:16:09 AM

Pity the poor stupid investor.....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

for audit committees to interview several candidates for an engagement partner when a new engagement partner is to be chosen because the qualifications and personal characteristics of the engagement partner are viewed by the audit committee and senior management as particularly important. Because of the engagement partner's key role in the audit, the Board believes it is appropriate when shareholders are asked to ratify the company's choice of the registered firm as its auditor to be as well informed as possible about the leader of the team that will conduct the audit. Public identification of the engagement partner would help serve that end.

B. Disclosure About Certain Other Participants in the Audit

The second part of the Board's reproposal would require inclusion of information about certain other participants in the audit in a paragraph that would follow the opinion in the auditor's report itself or in an appendix immediately following the auditor's report that would be referenced in the auditor's report. The information to be disclosed would be:

- With respect to other independent public accounting firms, the name of the firm(s); with respect to persons not employed by the auditor, the phrase "persons not employed by our firm";
- The location of other participants in the audit (the country of headquarters' office location for a firm and the country of residence of a natural person or headquarters' office location of another person that is an entity); and
- The percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit in relation to the total hours in the most recent period's audit ("the percentage of the total hours in the most recent period's audit").

1. Applicability of the Disclosure

The reproposed amendments would require the auditor to disclose information about independent public accounting firms and other persons not employed by the auditor that took part in the audit under arrangements pursuant to either AU sec. 543[36/] or Auditing Standard No. 10, as applicable.

[36/] See AU secs. 543.03-.05.

2. *Exclusions from the Disclosure*

The reproposed amendments would not require disclosure of information about the following participants in the audit:

- Individuals performing the engagement quality review ("EQR");[37]
- Persons performing a review pursuant to Appendix K[38] ("Appendix K review"); and
- Persons employed or engaged by the company who provided direct assistance to the auditor, including:
  - o Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting;[39] and
  - o Internal auditors who provided direct assistance in the audit of the financial statements.[40]

These exclusions from the disclosure were retained from the 2011 Release.

The 2011 Release also excluded from the disclosure requirements persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing. After further considering the role of such persons in the audit, the Board is proposing to require, rather than exclude, disclosure in the auditor's report of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing. As discussed below, persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or

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37/ See Auditing Standard No. 7, *Engagement Quality Review.*

38/ See Securities and Exchange Commission Practice Section ("SECPS") 1000.45 Appendix K, *SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants.* The Board adopted the requirements of SECPS of the American Institute of Certified Public Accountants as part of its interim standards.

39/ See paragraph 17 of Auditing Standard No. 5.

40/ See paragraph .27 of AU sec. 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:21:29 AM

Hey....look everybody....

I'm an EQRer.....or

I'm Engaged......

Congratulations!!!!!!....
care for a certificate....?

can't touch me......hahahahahaha

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:17:15 AM

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:21:38 AM

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:27:15 AM

Hey....look at me.....we've got Special Skills......

we can hold our breath for six minutes.....

Can't touch me...

Respectfully yours,
"persons not employed by our firm,"

hahahahahahah

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:21:52 AM

auditing would be disclosed as other persons not employed by the auditor. The Board believes that disclosure about the location and extent of participation of these other participants would be as relevant to investors and other financial statement users as information about any other participants in the audit.

3. Disclosing Names of Certain Other Participants in the Audit

In the 2011 Release, the Board proposed that the names of all other participants whose extent of participation exceeded the disclosure threshold would be included in the auditor's report. After considering comments raised regarding the applicability of the proposed disclosure to alternative practice structures[41/] and the impact on such structures, the Board is proposing to require only the names of other independent public accounting firms participating in the audit to be disclosed. Other persons not employed by the auditor, including persons employed by other entities in alternative practice structures and persons engaged by the auditor with specialized skill or knowledge in areas other than accounting or auditing, 1 would be listed in the disclosure as "persons not employed by our firm," rather than identified by their names, including only the location and extent of participation of those persons.

4. Affiliate Relationships, Including Offshoring Arrangements

In the 2011 Release, the Board proposed that the disclosure of the names of other participants in the audit would include the names of all independent public accounting firms that participated in the audit, which may or may not be affiliated with the accounting firm issuing the auditor's report. In the 2011 Release, the Board indicated that disclosure of any offshored work would not be required to the extent that the offshored work is performed by another office of the same accounting firm, even though that office may be located in a country different from the country where the firm is headquartered. The staff of such office is employed by the accounting firm issuing the auditor's report.

After considering comments, the Board retained the proposed disclosure provisions from the 2011 Release. The Board understands that offshored work may be performed by another office of or by entities that are distinct from, but that may be affiliated with, the registered firm that issues the report. Disclosure of entities that are

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[41/] The Board's standards describe alternative practice structures as "nontraditional structures" whereby a substantial (the nonattest) portion of an accounting firm's practice is conducted under public or private ownership, and the attest portion of the practice is conducted through the accounting firm. ET section 101.16, *101.14—The effect of alternative practice structures on the applicability of independence rules*.

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:27:41 AM

distinct from the firm that issues the report in the audit would be consistent with the overall objective of the amendments the Board is reproposing and is an application of the requirement to disclose other participants in the audit notwithstanding any network affiliation or other relationship.

5. Disclosure Threshold

Similar to the originally proposed amendments, the reproposed amendments would require disclosures about other participants in the audit based on a percentage of the total audit hours in the most recent period's audit. In the 2011 Release, the Board proposed disclosure of information about other participants in the audit if the contribution of those persons exceeded 3% of the total hours in the audit engagement. Because a number of commenters suggested that the 3% threshold was too low and would include information that was not meaningful, the Board is proposing to raise the disclosure threshold to 5%. This approach has the advantages of limiting disclosure to work that is a significant part of the audit, but would allow a user of the information to gain a general understanding of the relative magnitude of each other participant's contribution to the audit.

6. Presentation as a Single Number or as Ranges

In the 2011 Release, the Board originally proposed that the disclosures of the work of other participants in the audit should be stated as a single number. After considering the views of commenters, the Board is reproposing that the disclosure be stated as a single number or within a series of ranges, beginning with narrower ranges—less-than-5% and 5% to less-than-10%—and then in wider ranges—10% to less-than-20%, 20% to less-than-30%, and so on up to a range of 90%-or-more.

In situations in which the extent of participation is less-than-5%, individually for firms or in the aggregate for persons from the same country, the auditor would not be required to disclose the names and locations of other accounting firms or the locations of other persons not employed by the auditor. However, the auditor would be required to group and disclose the aggregate percent of participation of the other accounting firms or other persons not employed by the auditor. Examples of the application of these requirements can be found in Appendix 3, Section II.D.2., *Presentation as a Single Number or as Ranges*, of this release.

7. Discussion

Information about other participants in the audit could become increasingly important as commercial activity becomes ever more global. Many companies with substantial operations outside the United States are audited by U.S.-based, PCAOB-

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:32:36 AM

'Aggregate'....what a great opportunity to obfuscate, hide, conceal, commit fraud-n-steal.....oops please delete that last one before publishing.....

Respectfully yours,

Persons not employed by our firm

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:29:42 AM

registered public accounting firms.[42/] In such cases, other firms from around the world—some PCAOB-registered, some not, but almost always separately established legal entities likely participated to varying degrees in the audits of such companies.[43/] In fact, the Board's inspection process has revealed that the extent of participation by firms other than the one that signs the auditor's report ranges from none to most of the audit work (or, in extreme cases, substantially all of the work).[44/] To investors in such companies who read today's auditor's report, however, these situations are indistinguishable. In each case, investors see only the name of the signing firm, notwithstanding the possible significance of other firms' roles or their location or identity.

In many situations, the signing firm uses another firm in a foreign country to audit the financial statements of a subsidiary in that foreign country. These arrangements can be an effective and cost-efficient way to audit today's multinational corporations. At the same time the quality of the audit is dependent, to some degree, on the competence and integrity of the participating accounting firms. This is especially true when the signing firm has not reviewed all the work done by the other firm.[45/] The Board

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[42/] See PCAOB's Staff Audit Practice Alert No. 6, *Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm,* (July 12, 2010) (discussing the trend of smaller U.S. firms auditing companies with operations in emerging markets and reminding auditors of their responsibilities in such audits). Audit Practice Alert No. 6 at 2 noted that "in a 27-month period ending March 31, 2010, at least 40 U.S. registered public accounting firms with fewer than five partners and fewer than ten professional staff issued audit reports on financial statements filed with the SEC by companies whose operations were substantially all in the China region." See also PCAOB Research Note No. 2011-P1, *Activity Summary and Audit Implications for Reverse Mergers Involving Companies from the China Region: January 1, 2007 through March 31, 2010* (March 14, 2011) (discussing available information on the role of registered public accounting firms in auditing issuers in the China region).

[43/] Firms that do not prepare or issue any auditor's report or play a substantial role in the preparation or furnishing of an auditor's report need not be registered with the Board. PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms*.

[44/] As previously noted, the accounting firm issuing the auditor's report supervises the work of or assumes responsibility for the procedures performed by other participants in the audit.

[45/] See, e.g., AU sec. 543.

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Number: 1 9:33:20 AM	Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC	Subject: Highlight	Date: 3/13/2014

previously conveyed its concern about some practices it has seen in these arrangements.[46/]

Knowing the names, locations, and extent of participation of the accounting firms involved in the audit would allow users of the auditor's report to research publicly available information about these participants. For example, information on the PCAOB website indicates whether a firm is registered with the Board and has been inspected or sanctioned by the Board or whether a firm is located in a country that does not allow PCAOB inspections. The disclosure of the location and extent of participation in the audit of other independent public accounting firms and other persons not employed by the auditor would allow users to understand whether the other participants are headquartered or reside in the auditor's home country or in other jurisdictions, as well as how much of the audit work they performed.

Through its inspections, the Board also has seen circumstances in which disclosure regarding other firms that participate in audits could have been particularly valuable to investors and other financial statement users. For example, through the Board's oversight activities, the Board observed that for some large, U.S.-based financial institutions, a significant portion of the audit work was performed outside the U.S. by a firm other than the firm that signed the auditor's report (typically, a member firm of the same network). In another case, a small U.S.-registered public accounting firm signed an auditor's report for an issuer based in China even though "the audit procedures performed by the other firm [based in China] constituted substantially all of the audit procedures on the issuer's financial statements."[47/] Investors had no practical means of learning these facts, which the Board believes would be useful information.

[46/] See PCAOB's Staff Audit Practice Alert No. 8, *Audit Risk in Certain Emerging Markets*, at 19 (October 3, 2011) ("Through the Board's oversight activities, the Board's staff has observed instances in certain audits of companies in emerging markets in which the auditor did not properly coordinate the audit with another auditor."); see also In the Matter of Clancy and Co., P.L.L.C., Jennifer C. Nipp, CPA, and Judith J. Clancy, CPA, PCAOB Release No. 105-2009-001 (March 31, 2009) (imposing sanctions in a case in which a U.S. firm used a significant amount of audit work performed by a Hong Kong firm without adequately coordinating its work with that of the Hong Kong firm).

[47/] See Staff Audit Practice Alert No. 6, at 3. The Board previously warned investors and auditors of the heightened fraud risk related to audits of companies based in certain emerging markets. See Staff Audit Practice Alert No. 8, at 1 ("Local business practices and cultural norms in emerging markets may differ from those in more

Transparency could discourage practices that would not withstand scrutiny to go unchallenged, at least until they are discovered by regulators. In one case, the Board's inspectors learned, for example, that a registered firm opined on the financial statements of a large, multinational company and reported having performed an audit in accordance with PCAOB standards, even though another firm in another country (albeit, a member firm of the same network) had performed the audit. In other circumstances, PCAOB inspections have revealed that some registered firms have allowed other firms that did not possess the requisite expertise or qualifications to play significant roles in audits of issuers. Disclosure about other firms participating in the audit could expose, and therefore discourage, such practices.

As with disclosure of the name of the engagement partner, over time, information sources likely would develop about the firms that participate in public company audits, such as lists of their public company accounts, size of the accounting firms, disciplinary proceedings and litigation in which they have been involved, and similar matters. Such information likely would be useful to audit committees, investors, and other financial statement users. In addition, over time, these disclosures would provide information that could prompt further useful inquiry about the audit. For example, if the percentage of contribution to the audit by a participating accounting firm or individual either increases or decreases over time (which can be determined since participation is disclosed in ranges), or if it spikes in a particular year, such facts may lead to questions about the underlying reasons.

C. Liability Considerations

A concern voiced frequently by commenters on the Board's 2009 and 2011 Releases is that there could be an increase in the potential liability of persons named in the auditor's report in litigation, particularly securities litigation. Since 2009, the Board has sought and carefully considered commenters' views on the liability effects of its 2009 and 2011 Releases. While the Board has not sought to increase the risk that an engagement partner would be held liable in private litigation, it has recognized and, where it could, consistent with its policy objectives, tried to mitigate this possibility.[48/] The Board takes seriously commenters' concerns about the potential effects of the

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developed markets, and auditors should be alert to the effect of these differences on the risks of material misstatement").

[48/] Most private litigation arising out of audits involves claims against accounting firms, which generally have significantly greater resources to satisfy any judgment than does any individual partner. The Board's reproposed amendments will not reduce an accounting firm's potential liability for deficient audit work.

proposed amendments on auditor liability in private actions. The Board has sought, and now has considered, two rounds of public comment on these issues and has engaged in its own review of the relevant statutory provisions and case law. The Board has also kept the Commission staff advised of its thoughts on these issues, as commenters suggested.

As explained below, the Board believes that any possible increases in a named engagement partner's or participating accounting firm's exposure to liability should be limited and that the potential risk of such an increase would be justified by the potential benefits to investors and other financial statement users of greater transparency.

The Board has identified two main potential sources of liability: Section 11 of the Securities Act of 1933 ("Securities Act"); and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 promulgated under it.

1. Section 11 of the Securities Act

Section 11 imposes liability for material misstatements or omissions in a registration statement, subject to a due diligence defense, on "every accountant . . . who has with his consent been named as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement . . . which purports to have been prepared or certified by him." Section 7 requires issuers to file with the Commission the consent of any accountant who is named as having prepared or certified any part of the registration statement or any valuation or report included in the registration statement filed with the Commission.

Auditors who issue an auditor's report that is filed with the Commission in connection with a registration statement meet the criteria in Section 7 and therefore must consent to inclusion of their names in a document filed with the Commission and be subject to liability under Section 11.[49/] The Board has assumed that engagement partners and participating accounting firms named in an auditor's report would have to consent as well to the inclusion of their names in such an auditor's report filed with, or

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[49/] See Section 11 of the Securities Act; see also 17 C.F.R. § 230.405 ("The term 'certified,' when used in regard to financial statements, means examined or reported upon with an opinion expressed by an independent or certified public accountant."). In most cases, the firm issuing the auditor's report assumes responsibility for the participating accounting firm's work and, as a result, the participating accounting firm does not issue an auditor's report or express any opinion on the issuer's financial statements. When the principal auditor does not assume responsibility for the other firm's work, the other firm's report must be filed with the SEC and a consent is required. The reproposed amendments would not change these requirements.

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:35:46 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 9:38:30 AM

Is it possible to regulate away human nature and stupid.....?

Well, somebody must think so.....just not us...

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:40:35 AM

included by reference in, another document filed under the Securities Act with the Commission.

Requiring engagement partners to consent to inclusion of their names in a document filed with the Commission and be subject to Section 11 liability would not change the performance obligations of engagement partners, the firm issuing the auditor's report, or any other participant in the audit. The firm that issued the report would continue to file a consent and to be subject to liability under Section 11. The fact that the engagement partner would be subject to Section 11 liability, however, might provide investors with some additional comfort about the engagement partner's work on the audit.

In this context, the costs imposed by a consent requirement likely would be relatively low. Because an engagement partner's liability would be, at most, coextensive with that of the firm, adding the engagement partner as a defendant should not increase the amount a court could award to investors. A court might hold the engagement partner liable, jointly and severally with the firm, for those same damages, but in most cases the accounting firm will have greater resources to satisfy a judgment than will any individual partner. In any event, the Board seeks input as to the extent to which individual partners or firms may seek to mitigate any costs arising out of a claim under Section 11.[50/]

Under these circumstances, it seems likely that any increase in overall costs would be small. Such costs as might be incurred would include the administrative costs to obtain and file the additional consents as well as costs inherent in the litigation system. The administrative costs, in particular, should be insignificant. The Board understands that the engagement partner could simply be added to the consent that the accounting firm already provides and that the issuer already files with the Commission.

50/ The Board notes that Section 14 of the Securities Act provides that "[a]ny condition, stipulation, or provision binding any person acquiring any security to waive compliance with any provision of this title or of the rules and regulations of the Commission shall be void." The Board also notes certain positions by the Commission with respect to Section 11. For example, the Commission has stated that indemnification of directors, officers, and persons controlling the registrant for liabilities incurred pursuant to the Securities Act "is against public policy as expressed in the Act and is therefore unenforceable." Item 510 of Regulation S-K, 17 C.F.R. § 229.510; see also Item 508(g) of Regulation S-K, 17 C.F.R. § 229.508 (requiring a registrant to furnish a brief description of any provision in the underwriting agreement for indemnification by the registrant of the underwriters or their controlling persons against any liability arising under the Securities Act).

Public Company Accounting Oversight Board

Litigation-related costs might be more significant than administrative costs but, in the Board's view, in this context should not be substantial. For one thing, consents from engagement partners in an audit should not increase the number of lawsuits filed, though it might increase the number of defendants in any lawsuit that would have been filed anyway. Because the engagement partner's liability would be based on the same facts that already subject the firm to liability, the filing of engagement partner consents should not make the filing of a Section 11 case any more likely than it is today.

In fact, Section 11 cases against accounting firms are relatively rare. Of the 152 federal securities class action cases filed in 2012, only four alleged a violation of Section 11 by an accounting firm.[51/] In 2011, 188 federal securities class action cases were filed, and thirteen included allegations that an accounting firm violated Section 11.[52/] Of those thirteen, nine involved audits of Chinese companies trading in the U.S. after a reverse merger. Eight of the 176 federal securities class action cases filed in 2010 alleged that an accounting firm violated Section 11.[53/]

The analysis of Section 11 liability risks in the case of participating accounting firms is somewhat different because of the more limited role of the participating accounting firms in the audit. By its terms, Section 7 requires issuers to file the consents of those experts that are "named as having prepared or certified" any part of the registration statement or a report for use in connection with the registration statement. Section 11, in turn, imposes liability on experts, but only "with respect to the statement . . . which purports to have been prepared or certified by him."

The Board assumes that the participating accounting firm would be liable only for those misstatements in the financial statements associated, in some way, with their own audit work—that is, a participating accounting firm should not be liable for misstatements unrelated to its own work. Any uncertainty about whether participating accounting firms could be liable for other misstatements in the financial statements, however, could act as a disincentive to providing the consent and consequently impose additional costs.

Although it has been asserted that participants in the audit would charge more for their work or refuse to participate in the audit if consents were required, commenters did not present any evidence that this would be the case. The requirement to file a consent

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51/ See Stanford Law School Securities Class Action Clearinghouse available at http://securities.stanford.edu.

52/ Id.

53/ Id.

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Number: 1 9:53:50 AM | Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC | Subject: Highlight | Date: 3/13/2014 does not change the work the auditor must do. Raising the fee charged by a participant based on an unquantifiable assertion of increased risk is unlikely to be well received either by the accounting firm issuing the auditor's report or the audit committee. Also, for firm network members refusing to participate in an audit because of the consent requirement may be incompatible with obligations as a member of the network. Uncertainty as to the forgoing does not, in the Board's view, justify depriving investors of the benefits of the additional information that would be provided pursuant to the reproposed amendments. Even if costs were to increase the Board believes this information would be valuable.

The Board is reproposing the disclosure requirements because the greater transparency afforded by the required disclosures would, in the Board's view, serve the public interest.

2. Section 10(b) and Rule 10b-5 of the Exchange Act

The second main potential source of liability from the Board's reproposed amendments is under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated under it. The concern is that engagement partners and other participants in the audit could become liable under Section 10(b) and Rule 10b-5 for materially untrue statements deemed to be made by them in the auditor's report.

In its 2011 Release, the Board noted that the Supreme Court, in Janus Capital Group, Inc. v. First Derivative Traders, had decided what it means "[t]o make any untrue statement of a material fact" under Section 10(b) and Rule 10b-5(b).[54/] That case brought some clarity to an area of the law that had, as the 2009 Release had noted, been unclear. Specifically, the Court held that "[f]or purposes of Rule 10b-5, the maker of a statement is the person or entity with ultimate authority over the statement, including its content and whether and how to communicate it."[55/] The Court also explained that "attribution within a statement or implicit from surrounding circumstances

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[54/] Janus Capital Group, Inc. v. First Derivative Traders, 131 S.Ct. 2296, 2302 (2011). Pursuant to Rule 10b-5, "it is unlawful for 'any person, directly or indirectly, . . . [t]o make any untrue statement of a material fact' in connection with the purchase or sale of securities." See id. at 2301 (quoting Rule 10b-5). Because there is no private right of action under Section 10(b) against those who aid and abet a securities fraud, Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A., 511 U.S. 164, 191 (1994), to be liable in a Section 10(b) private action for the making of the statement, the actor must be the maker of the statement. See Janus, 131 S.Ct. at 2302.

[55/] Id.

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Number: 1 10:07:09 AM	Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC	Subject: Highlight	Date: 3/13/2014

is strong evidence that a statement was made by—and only by—the party to whom it is attributed."[56/]

The Board solicited comment on the Section 10(b) liability implications of a disclosure approach, rather than a signature requirement, in light of Janus. Comments filed with the Board on the 2011 Release, after the Janus decision, generally reflected the same concerns expressed in response to the 2009 Release. Many of those who opposed the disclosure requirements suggested that the proposed requirements could increase the engagement partner's risk of personal liability under the Exchange Act. In the view of these commenters, this could raise audit costs, discourage good practitioners from auditing public companies, and encourage more lawsuits, even if they ultimately proved meritless.

Some commenters seemed to acknowledge that, in light of Janus, a disclosure approach, rather than requiring the engagement partner's signature, could mitigate concerns about private liability for fraud under Section 10(b). At the same time, however, these and other commenters noted that it was still uncertain how lower courts will apply the Supreme Court's decision. One such commenter suggested that if the Board adopted a disclosure requirement it should impose a provisional rule that would be in effect for five years to allow the case law to develop. In this commenter's view, the Board could then decide to make the rule permanent once it becomes clear that concerns about liability were unfounded.

Because the future decisions of courts interpreting Janus cannot be known in advance, the Board cannot conclude with certainty whether its approach might increase liability under Section 10(b). The Board does believe, however, that a disclosure rule is unlikely to change the *status quo* regarding private liability for fraud under Section 10(b). The auditor's report would continue to be signed only by the firm. The engagement partner will gain no new authority for, nor make any new statement in, the auditor's report by virtue of the firm's disclosure of his or her name. Because of this, the Board also believes that the better argument is that liability should not be increased under the Janus decision.[57/]

If the reproposed amendments are adopted, the Board would also monitor the rule for some time after it became effective. If the reproposed disclosure requirement

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[56/] See id.

[57/] While disclosure of the engagement partner might, at least in some circuits, make it easier for a plaintiff to plead reliance, the plaintiff would still have to meet all the other elements of Section 10(b) liability, including that the engagement partner was the maker of the statement under the Janus standard.

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:56:08 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:02:00 AM

The case law will evolve over five years, ten years or even.....

yes, twenty years....

regardless of whether or not it's a provisional rule.....

that's my thought and we're sticking to um.....both of um....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 9:57:49 AM

leads to an increase in litigation against either engagement partners or other participants in the audit that results in negative effects on audits of public companies, the Board can revisit it.

In response to comments, the Board also is making a minor change to the language that it proposed to add to the examples of reports that illustrate the reproposed disclosure requirements. Some commenters expressed concern that courts might misconstrue the statement that the engagement partner is "responsible for the audit" to mean that the engagement partner has "ultimate authority," as that term is used in Janus, over the opinion expressed by the firm. Because the phrase "responsible for the audit" is not necessary to make the disclosure clear, the reproposed amendments do not include this phrase.[58/]

IV. Audits of Brokers and Dealers

Section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act")[59/] gave the Board oversight of the audits of brokers and dealers registered with the SEC. On July 30, 2013, the SEC amended SEC Rule 17a-5 under the Exchange Act, to require, among other things, that audits of brokers' and dealers' financial statements be performed in accordance with the standards of the PCAOB for fiscal years ending on or after June 1, 2014.[60/]

The Board determined that the reproposed amendments would be appropriate for the audits of brokers and dealers for similar reasons as the audits of issuers. Commenters who mentioned brokers and dealers in their comment letters did not raise any specific concerns about the applicability of the amendments to the audits of brokers and dealers. Therefore, the reproposed amendments, if adopted by the Board and approved by the SEC, would be applicable to such audits.

Based on research conducted by the PCAOB's Office of Research and Analysis ("ORA"), ownership of brokers and dealers is primarily private, with individual owners generally being part of the management team. ORA's research indicates that there are

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[58/] The engagement partner remains responsible for the audit and its performance, as described by Auditing Standard No. 10. As explained above, however, the auditor's report is issued and signed by the firm.

[59/] Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010).

[60/] See SEC Exchange Act Release No. 70073, *Broker-Dealer Reports*, (July 30, 2013), 78 Federal Register 51910 (August 21, 2013), available at http://www.sec.gov/rules/reproposed/2013/34-70073.pdf.

no issuers among the approximately 4,230 brokers and dealers that filed annual audited financial statements with the SEC for fiscal periods ended during 2012. Approximately 9% of the 4,230 brokers and dealers are subsidiaries of issuers. The remainder are not owned by issuers.

According to ORA's research, for the population of brokers and dealers that are not subsidiaries of issuers (1) approximately 90% are directly owned by an individual or an entity that owns more than 50% of the broker or dealer and (2) approximately 75% have five or fewer direct owners. A review of the title or status of the brokers' or dealers' direct owners who are individuals suggests that these owners are generally part of the broker's or dealer's management. Disclosure of the engagement partner or other participants may be of limited use to individual owners, but it may be useful to other financial statement users. The Board is seeking comment regarding the applicability of the reproposed amendments to audits of brokers and dealers.

V. Economic Considerations

A. Economic Rationale and Discussion of Benefits

The reproposed amendments are designed to provide investors and other financial statement users with information the Board believes could help them evaluate the quality of individual audits. Although the names of the engagement partner and certain other participants in the audit are known to company management, they are not known to investors and other financial statement users despite their potential value in making economic decisions, including investment decisions to buy, hold, or sell shares. The disclosed information may provide a signal about the quality of the audit of the financial statements that could reduce the level of information asymmetry[61/] between company management and investors.

Under the current regulatory baseline, in which only the firm name is disclosed, investors and other financial statement users are limited in what they know about the participants who actually perform an audit. PCAOB oversight activities show that audit quality varies among partners within the same firm, suggesting that, on its own, firm-level reputation is an imperfect signal of audit quality. Disclosure of the names of the engagement partner and certain other participants in the audit would allow investors and other users of financial statements to supplement the audit firm's name with more granular information when forming an opinion about the nature of the audit. This refinement may be of particular interest to investors and other financial statement users

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61/ Economists often describe information asymmetry as an imbalance, where one party has more or better information than another party.

given that a relatively small number of audit firms conduct a relatively large number of public company audits. The reproposed disclosure requirements would allow investors to distinguish between audits beyond the name of the accounting firms.

The capacity to differentiate between alternative products is a fundamental requirement of competitive markets. Investors, for example, benefit from knowing the quality and reputation of not only the firm, but also of the engagement partner on the audit of the company in which they invest. By having information at this level of granularity – that which corresponds to their investment decision – the market for audit services is made more competitive and efficient because investors are better able to discern between audit firms.

By adding granularity to the information about who performed the audit of a particular company, the differentiated information clarifies distinctions between investment alternatives and can empower investors to pursue their investment strategies more effectively. Over time, this could promote competition in the audit industry and could lead to a more efficient allocation of capital.

The following sections describe the findings of several recent studies that provide empirical evidence related to disclosing the name of the engagement partner and certain other participants in the audit. The Board will review the academic literature again before taking further action on the reproposed amendments to identify any relevant new studies or changes to the working papers referenced below.

1. Research on the Disclosure of the Name of the Engagement Partner

Several studies examined whether engagement partner disclosure requirements affect the prices of securities leading to more efficient markets. Knechel et. al. found "considerable evidence that similar audit reporting failures persist for individual partners over time" and that in Sweden, where engagement partner's names are disclosed, "the market recognizes and prices differences in audit reporting style among engagement partners."[62/] Although much of this analysis was conducted using data on private companies, many of the results continued to hold when the authors separately analyze

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[62/] See W. Robert Knechel, Ann Vanstraelen, and Mikko Zerni, *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions,* Working paper (September 2013) available at https://www.caaa.ca/_files/file.php?fileid=filerSDAxJgThx&filename=file_Knechel__Vanstraelen__Zerni__Does_the_Identity_of_Engagement_Partners_Matter.pdf.

public companies. A similar study conducted by Aobdia et. al.[63/] used data from Taiwan and also found that both debt and equity markets react to the performance characteristics of engagement partners.[64/]

Lambert et. al. used an experimental framework to examine how investors react to disclosure of the engagement partner.[65/] They found that prospective investors were less likely to invest in a company that has been linked via the disclosure of the name of the engagement partner to another company that had to restate its financials. While this could improve capital allocation, the findings were only statistically significant for less experienced investors. The authors went on to evaluate potential implications on audit partner reputation, accountability, incentives, and independence.

Although the primary benefits of the reproposed amendments pertain to the disclosure of the engagement partner and certain other audit participants, the disclosures may also create an incentive for auditors to voluntarily take steps that could result in improved audit quality. Research summarized below leaves open the question of other benefits. The Board is seeking additional comments and data regarding the disclosures' potential effects on accountability.

Carcello and Li[66/] examined the impact of the E.U.'s audit engagement partner signature requirement on audits in the U.K., and found improvements in several

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[63/] See Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, *Capital Market Consequences of Individual Audit Partners*, Working paper (August 2013) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2321333.

[64/] Aobdia et. al. acknowledge that their use of estimates of abnormal accruals as a proxy for engagement partner performance is subject to measurement error. They continue to find evidence that engagement partner histories matter to capital markets when they use regulatory sanctions history as an alternative measure of audit quality.

[65/] See Tamara A. Lambert, Benjamin L. Luippold, and Chad M. Stefaniak, *Audit Partner Disclosure: Potential Implications for Investor Reaction and Auditor Independence*, Working paper (March 2013) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1983482.

[66/] See Joseph V. Carcello and Chan Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom,* 88 The Accounting Review 1511, 1511-1546 (2013).

financial indicators of audit quality,[67/] as well as an increase in audit fees. It is worth highlighting that this study evaluated a policy alternative (signature requirement) that may have a more pronounced effect on accountability than the disclosure requirement being reproposed since the engagement partner's signature goes one step beyond just disclosing the partner's name.

Two studies suggested that disclosure requirements could produce limited or no observable improvement in audit quality. Blay et. al. analyzed data from Norway and were unable to document any statistically significant improvements in audit quality following the E.U. mandate for engagement partners to sign auditors' reports.[68/] In a qualitative analysis, King et. al. argued that only under certain circumstances would increased accountability through engagement partner disclosure lead to better auditor performance—when the public's perception of audit quality is below the actual level of audit quality.[69/] Otherwise, they argued that disclosure could lead to over-auditing.

2. Research on the Disclosure of Certain Other Participants in the Audit

Dee et. al.[70/] examined the impact on financial markets of current annual PCAOB Form 2 disclosures[71/] of other participants in the audit. Using the filing of the Form 2 as

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67/ Specifically, Carcello and Li found a significant decline in abnormal accruals, a decrease in the propensity to meet an earnings threshold, an increase in the incidence of qualified auditors' reports, and an increase in a measure of earnings informativeness.

68/ See, e.g., Allen D. Blay, Matthew Notbohm, Caren Schelleman, and Adrian Valencia, *Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate,* Working paper (April 2012) available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2044817.

69/ See Ronald R. King, Shawn M. Davis, and Natalia M. Mintchik, *Mandatory Disclosure of the Engagement Partner's Identity: Potential Benefits and Unintended Consequences*, 26 Accounting Horizons 533, 533-561 (2012).

70/ See Carol Callaway Dee, Ayalew Lulseged, and Tianming Zhang, *Who Did the Audit? Investor Perceptions and Disclosures of Other Audit Participants in PCAOB Filings*, Working paper (August 2012) available at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx.

71/ PCAOB Form 2 requires independent public accounting firms that audited no issuers during the applicable reporting period to provide information on each issuer for which they "played a substantial role in the preparation or furnishing of an audit report" (as defined by PCAOB Rule 1001 (p)(i)).

the event date, they investigated "whether the market reacts to the disclosure of other participants in audits." For companies whose audits involved other participants disclosed in Form 2, they find a negative market reaction and a decrease in the information content of earnings surprises post disclosure. The authors concluded that the results of the study suggested "that PCAOB required disclosures by auditors of their significant participation in the audits of issuers provide new information, and investors behave as if they perceive audits in which other auditors participate negatively after the information is disclosed."[72/]

B. Discussion of Costs

Under the reproposed amendments and as discussed above in the liability section, audit firms would likely incur direct compliance costs to obtain consents and to calculate the relative levels of participation of the other participants.[73/] These direct costs are believed to be low due to the relatively simple nature of the tasks. In addition, these costs may decline over time as firms are able to automate these procedures.

The disclosure requirements could result in indirect costs related to liability. The liability section above describes in greater detail the potential sources and likelihood of such costs. As a general matter, the magnitude of damages would not change, but the number of defendants listed in the litigation may increase. As a result, there could be indirect costs to engagement partners and other audit participants related to obtaining representation in cases when they may not have been named before.

Investors may also incur costs to obtain the benefit of the disclosure. These costs—which should be interpreted as a reduction in the net benefits received—could include the cost of collecting disclosed information. Given the general availability of the auditor's report to investors and other users of the disclosed information, the costs to investors are expected to be relatively low. For investors choosing to aggregate disclosed information, the costs would be higher.

[72/] Id. at 31-32. Of course, this negative perception might result from a lack of sufficient information available for investors to draw conclusions about the quality of audits in which other participants are involved. If so, the reproposed amendments could help address this issue by providing more information regarding participants in the audit than is currently available.

[73/] See Section III.C., *Liability Considerations,* for further discussion of liability considerations.

C. Alternatives Considered

Over the past several years, the Board has considered a number of alternative approaches involving the issue of transparency. A threshold question was whether there was, in fact, a need for greater transparency about the participants in the audit and, if so, whether rulemaking was the appropriate vehicle to achieve it. On the question of need, through its outreach efforts, the Board became convinced that there was a strong desire among investors and other financial statement users to have more information about the audit, such as the identity of the individuals and firms that were doing the audit. Providing such information is consistent with the general approach of the U.S. securities laws favoring disclosure of information for investors' use. The degree of usefulness of the information discussed in this release likely would vary among investors and other financial statement users, but the Board believes that, overall, disclosure of the information would be useful and in the public interest.

The Board considered whether an informal approach rather than regulation would be a less costly means of achieving the desired end. The Board's usual vehicles for informal guidance such as staff audit practice alerts, research reports, answers to frequently asked questions, or summary reports under the Board's Rule 4010, did not seem suitable. Accounting firms also did not seem likely to change long established practices voluntarily and had not done so voluntarily in those jurisdictions where engagement partner signature on the auditor's report is now required by law or rule. Also, even if some auditors disclosed more information under a voluntary regime, practices among auditors likely would vary widely. That would defeat one of the Board's goals of achieving more robust and consistent disclosures about the auditors of all U.S. public companies. Thus, the Board did not pursue an informal or voluntary approach.

Once the Board concluded that rulemaking was appropriate in this matter, several alternatives were considered. A central consideration for the Board was to provide the information in a form that would be most easily accessible to investors and other financial statement users. That argued for providing the information in a document that was widely disseminated and commonly read by investors, such as the auditor's report that is included in the annual report filed with the SEC. It also argued for keeping the information in the same location as the audited financial statements. As discussed above, the Board believes disclosure in the auditor's report is the most appropriate alternative; however, other alternatives were considered, including the following:

1. Signing the Auditor's Report

In the 2009 Release, the Board considered a requirement for the engagement partner to sign the auditor's report in his or her own name in addition to the name of the audit firm. A number of commenters supported the signature requirement. However, many commenters opposed it, mainly because including the signature in the auditor's report, in their view, would appear to minimize the role of the audit firm in the audit and could increase the engagement partner's liability. Some commenters believed that this alternative would increase both transparency and the engagement partner's sense of accountability. Other commenters believed that engagement partners already have a strong sense of accountability and that signing their own name on the audit opinion would not impact that. In the Board's view, the reproposed approach includes most of the potential benefits of a signature requirement, while mitigating some of the concerns expressed by commenters.

2. Disclosure in Firms' Annual Reports Filed with the PCAOB on Form 2

1 All PCAOB registered firms must file a report on Form 2 with the Board at least annually. Form 2 provides basic information about the firm and the firm's issuer-related practice over the most recent 12-month period.[74/] In the 2011 Release, the Board proposed, in addition to the requirement to disclose the name of the engagement partner in the auditor's report, to add to Form 2 a requirement to disclose the name of the engagement partner for each audit required to be reported on the form. As originally proposed, disclosure on Form 2 would supplement more timely disclosures in the auditor's report by providing a convenient mechanism to retrieve information about all of a firm's engagement partners for all of its audits.

Some commenters on the 2011 Release suggested that the names of the engagement partner and the other participants in the audit should be included, if they were to be disclosed at all, not in the auditor's report, but on Form 2 only. This would make the information publicly available but likely would obviate any requirement for a consent by the named parties under Section 7 of the Securities Act and might further lessen any potential risk of liability under Section 10(b) by not including the names in the auditor's report itself.

There are, however, a number of disadvantages to this approach. It would delay the disclosure of information useful to investors and other financial statement users from 3 to 15 months[75/] and would entail some additional costs for accounting firms to develop systems and to compile and report that information. It also would make the information

[74/] Under the *Amendments to Conform PCAOB Rules and Forms to the Dodd-Frank Act and Make Certain Updates and Clarifications*, PCAOB Release 2013-010 (December 4, 2013), the Board has adopted amendments to Form 2 to call for relevant information concerning a firm's audits of brokers and dealers.

[75/] Form 2 must be filed no later than June 30 of each year, PCAOB Rule 2201, *Time for Filing of Annual Report*, and covers the preceding 12-month period from April 1 to March 31; See Form 2, General Instruction 4. Special reports must be filed no later than 30 days after the triggering event. See PCAOB Rule 2203, *Special Reports*.

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Number: 1 10:24:08 AM	Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC	Subject: Highlight	Date: 3/13/2014

more difficult to find by investors interested only in the name of the engagement partner for a particular audit, rather than an aggregation of all of the firm's engagement partners for a given year, because they would have to search for it in the midst of other unrelated information in Form 2.

While the Board could expend resources to develop systems to make the information more easily accessible, doing so would not address the disadvantages as to timing or the need for investors to look in several places for information that would be provided by the requirements of this reproposal. Therefore, the Board believes that adopting only a Form 2 requirement would seriously diminish the value of the disclosures. The Board remains interested, however, in commenters' views about whether annual disclosure in Form 2 would be a useful supplement to the more timely disclosures that the reproposed amendments would require.

3. A New, Targeted PCAOB Form

The Board also considered creating a new PCAOB form—to be filed with the Board at the same time or shortly after the auditor's report is filed with the SEC—that would identify the company, the date the auditor's report was issued, the identity of the engagement partner and the other participants in the audit, but only that information. The information would be publicly available through the PCAOB's website. This approach would have the same advantages as Form 2's approach but would coordinate the timing of the disclosure with the release of the auditor's report and would limit the information on each form to a single company. The disadvantage with this approach is that it still would require investors and other financial statement users to search two different places, at two different regulators (SEC and PCAOB) to see both the auditor's report and the disclosures about the participants in the audit. It also would require audit firms to set up new reporting structures and the PCAOB to administer and police the filing of thousands of individual forms annually and to create a system to make the forms easily available.

Because of the effort and costs involved—for investors to locate relevant information and for the firms and the Board to administer the filing of a new form—the Board believes that the selected alternative is both more useful and cost effective.

4. Disclosure of the Required Information Either in the Audit Committee Report or in the Auditor's Report

Under this approach, the Board would require disclosures to be made in the auditor's report itself, unless the audit committee agreed to do so in the audit committee's report filed with the proxy statement. This approach also poses several problems, however. There would not be a uniform source for the information among companies. In some cases, the information would be in the proxy statement, in others, in the auditor's report included in the annual report. Investors and other financial statement users would not readily know where the information was for any particular company. Another consideration is that the circumstance could arise where the auditor does not include the required disclosures in the auditor's report anticipating that the audit committee will include it in its report and, for whatever reason, the audit committee fails to do so. This would require the auditor to amend its auditor's report. Also, the timing of the filing of the proxy statement would pose the same problem as with the Form 2 approach. The proxy statement is almost always filed later than the auditor's report which must be included in the annual report filed with the SEC. Altogether this approach appeared to present risks of information dispersion and lack of uniformity of presentation that would defeat one of the Board's cardinal objectives in this project: ease of use.

VI. Considerations for Audits of Emerging Growth Companies

A. Background

Pursuant to Section 104 of the JOBS Act, any rules adopted by the Board subsequent to April 5, 2012, do not apply to the audits of EGCs (as defined in Section 3(a)(80) of the Exchange Act) unless the SEC "determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors, and whether the action will promote efficiency, competition, and capital formation."[76/] As a result of the JOBS Act, the amendments to PCAOB standards the Board is reproposing, if adopted by the Board, would be subject to a separate determination by the SEC regarding their applicability to audits of EGCs.

The PCAOB has been monitoring implementation of the JOBS Act in order to understand the characteristics of EGCs[77/] and inform the Board's considerations

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[76/] Pub. L. No. 112-106 (April 5, 2012). See Section 103(a)(3)(C) of the Sarbanes-Oxley Act, (15 U.S.C. §7213(a)(3)), as added by Section 104 of the JOBS Act.

[77/] In general terms, an issuer qualifies as an EGC if it has total annual gross revenue of less than $1 billion during its most recently completed fiscal year (and its first sale of common equity securities pursuant to an effective Securities Act registration statement did not occur on or before December 8, 2011). See JOBS Act Section 101(a), (b), and (d). Once an issuer is an EGC, the issuer retains its EGC status until the earliest of: (1) the first year after it has total annual gross revenue of $1 billion or more (as indexed for inflation every five years by the SEC); (2) the end of the fiscal year after the fifth anniversary of its first sale of common equity securities under an effective Securities Act registration statement; (3) the date on which the company issues more than $1 billion in non-convertible debt during the prior three-year period; or (4) the date

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/16/2014 9:47:27 AM

regarding whether it should request that the SEC apply the reproposed amendments to audits of EGCs, if adopted. To assist commenters, the Board is providing the following information regarding EGCs that it has compiled from public sources.[78/]

B. Characteristics of Self-Identified EGCs

As of October 1, 2013, based on the PCAOB's research, 1,144 SEC registrants have identified themselves as EGCs in SEC filings.

These companies operate in diverse industries. The five most common Standard Industrial Classification ("SIC") codes applicable to these companies are: blank check companies; pharmaceutical preparations; real estate investment trusts; prepackaged software services; and computer processing/data preparations services.

Approximately 22% of the EGCs identified themselves in registration statements and were not previously reporting under the Exchange Act as of October 1, 2013. Approximately 61% of the companies that have identified themselves as EGCs began reporting under the Exchange Act in 2012 or later. The remaining 17% of these companies have been reporting under the Exchange Act since 2011 or earlier. Accordingly, a majority of the companies that have identified themselves as EGCs have begun reporting information under the securities laws since 2012.

Approximately 64% of the companies that have identified themselves as EGCs and filed an Exchange Act filing with information on smaller reporting company status indicated that they were smaller reporting companies.[79/]

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on which it is deemed to be a "large accelerated filer" under the Exchange Act (generally, a company that has been public for at least one year and has an equity float of at least $700 million). See Section 3(a)(80) of the Exchange Act.

[78/] To obtain data regarding EGCs, the PCAOB's Office of Research and Analysis has reviewed registration statements and Exchange Act reports filed with the SEC with filing dates between April 5, 2012, and October 1, 2013, for disclosures by companies related to their EGC status. Companies with filings indicating they are no longer EGCs are not included in this analysis. Any filings subsequent to October 1, 2013 are not included in this analysis. The PCAOB has not validated these companies' self-identification as EGCs. The information presented also does not include data for companies that have filed confidential registration statements and have not subsequently made a public filing.

[79/] The SEC amended its smaller reporting company rules in *Smaller Reporting Company Regulatory Relief and Simplification*, Securities Act Release No.

Audited financial statements were available for nearly all of the companies that have identified themselves as EGCs.[80/] For those companies for which audited financial statements were available and based on information included in the most recent audited financial statements filed as of October 1, 2013:

- The reported assets ranged from zero to approximately $18.2 billion. The average and median reported assets were approximately $182.4 million and $0.3 million, respectively.[81/]

- The reported revenue ranged from zero to approximately $962.9 million. The average and median reported revenue were approximately $60.2 million and $2 thousand, respectively.

- The average and median reported assets among companies that reported revenue greater than zero were approximately $360.8 million and $69.3 million, respectively. The average and median reported revenue among these companies that reported revenue greater than zero were approximately $118.7 million and $22.1 million, respectively.

8876 (December 19, 2007). Generally, companies qualify to be smaller reporting companies and, therefore, have scaled disclosure requirements if they have less than $75 million in public equity float. Companies without a calculable public equity float will qualify if their revenues were below $50 million in the previous year.

80/ Audited financial statements were available for 1,134 of the 1,144 self-identified EGCs. Audited financial statements were not available for some EGCs that have filed registration statements that have not been declared effective.

81/ For purposes of comparison, the PCAOB compared the data compiled with respect to the population of companies that identified themselves as EGCs with companies listed in the Russell 3000 Index in order to compare the EGC population with the broader issuer population. The Russell 3000 was chosen for comparative purposes because it is intended to measure the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market (as marketed on the Russell website). The average and median reported assets of issuers in the Russell 3000 were approximately $12.1 billion and approximately $1.6 billion, respectively. The average and median reported revenue from the most recent audited financial statements filed as of October 1, 2013 of issuers in the Russell 3000 were approximately $4.6 billion and $725.8 million, respectively.

- Approximately 48% identified themselves as "development stage entities" in their financial statements.[82/]

- Approximately 55% had an explanatory paragraph included in the auditor's report on their most recent audited financial statements describing that there is substantial doubt about the company's ability to continue as a going concern.[83/]

- Approximately 38% were audited by firms that are annually inspected by the PCAOB (that is, firms that have issued auditor's reports for more than 100 public company audit clients in a given year) or are affiliates of annually inspected firms. Approximately 62% were audited by triennially inspected firms (that is, firms that have issued auditor's reports for 100 or fewer public company audit clients in a given year) that are not affiliates of annually inspected firms.

- Approximately 4% were audited by firms (1) whose names contain the full name of an individual that is in a leadership role at the firm and (2) have disclosed only one certified public accountant.[84/]

- Approximately 14% and 18% of the EGCs reported segment sales and assets,[85/] respectively, in geographic areas outside the country or region

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[82/] According to the Financial Accounting Standards Board standards ("FASB"), development stage entities are entities devoting substantially all of their efforts to establishing a new business and for which either of the following conditions exists: (1) planned principal operations have not commenced or (2) planned principal operations have commenced, but there has been no significant revenue from operations. See FASB Accounting Standards Codification, Subtopic 915-10, Development Stage Entities—Overall.

[83/] Approximately 1% of the population of companies in the Russell 3000 Index have an explanatory paragraph describing that there is substantial doubt about the company's ability to continue as a going concern.

[84/] This data is based on firms' annual disclosures on PCAOB Form 2. No companies in the Russell 3000 Index were audited by such firms.

[85/] See FASB Accounting Standards Codification, Topic 280, Segment Reporting.

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Number: 1 10:30:00 AM	Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC	Subject: Highlight	Date: 3/13/2014
Number: 2 10:29:38 AM	Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC	Subject: Highlight	Date: 3/13/2014

of the accounting firm issuing the auditor's report.[86/] For these EGCs, on average, 59% and 76% of the reported segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.[87/]

C. Applicability of the Reproposed Amendments for Audits of EGCs

Based on the data outlined in Section VI.B., *Characteristics of Self-Identified EGCs*, above, EGCs generally appear to be smaller and newer public companies. Overall, there is less information available in the market about smaller and newer companies than there is about larger and more established companies. The communication of the name of the engagement partner and information about other participants in the audit could assist the market in assessing some risks associated with the audit and valuing securities, which could make capital allocation more efficient. Disclosures about audits of EGCs could produce these effects no less than disclosures about audits of companies that are not EGCs.[88/]

Some EGCs operate in geographic segments that are outside the country or region of the accounting firm issuing the auditor's report. This characteristic may suggest involvement of participants in the audit other than the accounting firm issuing the auditor's report. The data above indicates that the percentage of EGCs reporting segment sales (14%) and assets (18%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is smaller as compared to companies in the Russell 3000 Index (51% and 37%, respectively). However, for these EGCs the average percentage of reported segment sales (59%) and assets (76%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is significantly higher than the analogous average segment sales (41%) and assets (37%) reported by companies in the Russell 3000 Index. Therefore,

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86/ Approximately 51% and 37% of the population of companies in the Russell 3000 Index reported segment sales and assets, respectively, in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

87/ For the population of companies in the Russell 3000 Index that reported segment sales or assets in geographic areas outside the country or region of the accounting firm issuing the auditor's report, approximately 41% and 37% of those segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

88/ This assumes that the market does not view information provided by the disclosure in audits of EGCs as less valuable than information in audits of issuers that are not EGCs. The Board is aware of no reason for such a distinction.

providing the reproposed disclosures regarding other participants in the audit may be as relevant to EGC investors and other financial statement users as it would be to investors in larger and more established companies.

As noted in the data above, some of the EGCs were audited by firms having only one certified public accountant whose full name is included in the firm's name. For those EGCs, the name of the audit engagement partner is already disclosed, in practice, in the auditor's report through the required signature of the auditor's firm. No companies in the Russell 3000 Index are audited by such firms.

The EGC data above also indicates that for 55% of the EGCs, the auditor's report on the most recent audited financial statements includes an explanatory paragraph describing that there is substantial doubt about the company's ability to continue as a going concern, as compared to 1% for the population of companies in the Russell 3000 Index. This suggests that, for the majority of EGCs, the auditor is modifying the auditor's report to indicate there is substantial doubt about the company's ability to continue as a going concern. Determining the identity of the engagement partner ultimately responsible for the going concern evaluation could be a factor that investors and other financial statement users consider in connection with the facts and circumstances relevant to a going concern modification of the auditor's report.

Exempting EGCs from the reproposed amendments might put investors in EGCs at an informational disadvantage compared to investors in larger and more established companies that would be subject to the reproposed amendments. For example, if the reproposed amendments do not apply to audits of EGCs, but are applicable to audits of larger and more established companies, the potential disparity between the two groups of companies in the amount and quality of public information available for investment decision making could increase.

Matters pertaining to all costs, discussed earlier in this release, are equally applicable to all companies, including EGCs. As previously described, the reproposed disclosure requirements are not anticipated to be costly to implement for the accounting firms that audit EGCs or other accounting firms. The Board has posed questions and seeks input on whether these reproposed amendments should apply to the audits of EGCs.

VII. Questions for Commenters

1. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

Page: 40

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:32:43 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:46:27 AM

Yes it would.... and by conducting a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.......

thanks, PCAOB...for your lack of support & guidance in this regard....(aka: providing Big Data/Cloud Eco-system analysis, Use Cases, et al....) & another thing....when will jail time be written into the Regulations......and acted on.....when faced with fraud?

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

   a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

   b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

6. Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

7. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:38:40 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:42:56 AM

Yes it would.... and by conducting a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.......thanks, PCAOB...for your lack of support & guidance in this regard....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:45:51 AM

Yes it would....thanks, PCAOB...for your lack of support & guidance in this regard....however, you all can turn this around by taking on the characteristics of NIST (National Institute of Standards & Technology) of the Audit World as you're already half-way there as far as a perceived agnostic approach for trustworthy, benign and fair practices........are concerned.....

So, by conducting a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.......thanks, PCAOB...for your lack of support & guidance in this regard....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:48:47 AM

Yes, yes they would.....

Via - a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.......thanks, PCAOB...for your lack of support & guidance in this regard....going forward, we're positive....yes positive that this too will change....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:47:08 AM

Number: 6 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:49:09 AM

Yes, yes they would.....

Via - a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.......thanks, PCAOB...for your lack of support & guidance in this regard....going forward, we're positive....yes positive that this too will change....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 7 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:49:31 AM

Yes, yes they would.....

Via - a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.......thanks, PCAOB...for your lack of support & guidance in this regard....going forward, we're positive....yes positive that this too will change....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Comments from page 41 continued on next page

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

   a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

   b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

6. Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

7. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

Number: 8 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:51:42 AM

Yes, yes they would.....

Please Note: See Appendix A., for a minor listing from the world of Social Media, and publically available, too....no less.....

Via - a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.......thanks, PCAOB...for your lack of support & guidance in this regard....going forward, we're positive....yes positive that this too will change....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 9 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:50:02 AM

Number: 10 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:53:45 AM

Yes, yes it would.....

As the sixteen parameters associated with fraud would rise to the top....sorta like a nice, big, brown....never mind.......oh yeah, flip flop......

Via - a Big Data/Cloud Eco-system reverse analysis based upon independent quantum analysis algorithms----without any assistance and/or support and/or help from the PCAOB uncover the good from the bad and those whose audits can be trusted on a sliding scale from zero to strong.......thanks, PCAOB...for your lack of support & guidance in this regard....going forward, we're positive....yes positive that this too will change....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 11 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:53:56 AM

Number: 12 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:55:16 AM

Number: 13 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 10:58:01 AM

Neither.....over time, there are no secrets across all industries.......and between competitors.....

Please see: Shadow Banks, and Shadow Jails, Re: China

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 14 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:03:23 AM

Nope, not at all......and anyone who uses the term 'unintended consequences' also believes such improvements in audit clarity will only confuse the poor dumb investor, cost to much to implement, is unnecessary as everything is working just fine, and will cause the sky to fall and will have....
U N I N T E N D E D
C O N S E Q U E N C E S

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 15 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 10:58:51 AM

9. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

10. What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

13. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

14. What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

15. Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why

Page: 42

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:03:46 AM

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:09:43 AM

No fines, no penalities....
jail time would be nice...but some would say...."isn't that a bit harsh....."

along the lines of "protecting companies from making bad business decisions...."(aka: fraud)...

just a simple application of a ring-fence on any entity from conducting any financial audits for three years or until they comply with this industry wide regulation....which ever comes first....

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:10:09 AM

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:11:45 AM

Identify the perps...which is a non-cost....then publizice loud and wide across the PCAOB Perps Web Site those who refuse to play by the rules, in this regard....

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:42:13 AM

Yes, we think it would.....and once the EGC's figure out how much pain/more work for them is associated with this they'll take the path of least resistance....
and continue doing what they've always been doing...until things Go South.....no offense South.....

Number: 6 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:12:28 AM

Number: 7 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:12:41 AM

Number: 8 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:38:12 AM

Yes, whenever you become visible you tend to pay greater attention to your reputation.....don't you agree....?

Yes....but use a bell-curve to address audit quality....some folks just have a greater sense of duty and responsibility to do the right thing...than others.....present audience excluded of course....Respectfully yours, Pw

Number: 9 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:28:50 AM

Such costs will be either passed thru or negotiated during the SLA phase of an engagement.....which ever comes last....and since anyone can call themselves and EGC....what's the point....?

Number: 10 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/16/2014 9:27:10 AM

Number: 11 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:34:24 AM

The length of time it would take to create a series of templates/more documentation to regulate and review....(aka: not much in cost over rides here....) and speaking of indirect double-reverse, value added, KPI's (Key Performance Indicators), pass-thru shadow

Comments from page 42 continued on next page

PCAOB
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9. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

10. What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

13. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

14. What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

12 15. 13 Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

14 16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why

accounting practices, associated with black money....how should these be handled....? Just curious....Respectfully yours,

Pw

Number: 12 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:16:58 PM

Yes...whenever someone is looking over your shoulder....we all tend to tighten up a bit.....more...

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 13 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 12:17:04 PM

Number: 14 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:26:30 AM

How many financial statements are correct, accurate, fair and honest....?

Did we hear, "Not that many"....so why would including another additional set of ..... 'just get it done's' improve the clarity of same.....?....just wondering...Pw

not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

18. Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

    a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?

    b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

19. Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

20. Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

    a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

Page: 43

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:15:31 PM

10% is best as it is easier to administer, identify, easier to track and audit and more difficult to obfuscate.....

as 10 is a very hard bucket to fill evenly and consistently.....

there are just too many 5's, 6's, and 7's...

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 12:12:16 PM

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:11:50 PM

Dear PCAOB Folks:

In countries where the rule of law consists of tossing individuals over the balcony of their secret 22nd floor hotel room in London, Bangkok or Singapore....

then no....

an adverse audit can be career threatening as well as life shortening.....

Then it would not be a good idea to advertise who did what to whom.....

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 12:11:05 PM

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:10:15 PM

In countries where the rule of law consists of tossing individuals over the balcony of their secret 22nd floor hotel room in London, Bangkok or Singapore....

then no....

an adverse audit can be career threatening as well as life shortening.....

Then it would not be a good idea to advertise who did what to whom.....

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 6 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 12:05:17 PM

Number: 7 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:04:46 PM

Nope, not at all....

Comments from page 43 continued on next page

not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

18. Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

    a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?

    b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

19. Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

20. Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

    a. 8 Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

If as a specialized skill/knowledge person, we're engaged on a project and are influencing the correctness of the audit...then we should be identified....and all costs will pass thru via the SLA/Contract....Audit Agreement...

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 8 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 12:02:07 PM

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

23. Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

24. Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

25. Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

VIII. Appendices

The Board's reproposal includes this Release ("release") and the following appendices:

- Appendix 1 contains reproposed amendments to PCAOB auditing standards for disclosure of the engagement partner.

Page: 44

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 12:01:14 PM

Yes for the first part....

But No for the second, unless this disclosure in cross-referenced with other appropriate data bases for detecting bad behavior....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:59:40 AM

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:59:16 AM

Yes....

and make public these forms for greater knowledge sharing and transparency via your brand new Town Hall Meeting Web Site...... (currently under construction)....no?

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:57:04 AM

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:56:40 AM

Yes....
based upon current research over the past five years....

See Pws Appendix A.,

the opportunity for fraud in these categories is considerable and should be a driving factor when conducting any and all audits...

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 6 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:55:04 AM

Number: 7 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:54:19 AM

Create Audit's Lite.....

Audit requirements to lessen the burden by focusing on the key areas of fraud....(where there is money there is the opportunity for fraud)

...but never, ever look away...
and see no evil,
hear no evil and
speak no evil......

which is the current climate within many regulatory agencies.....such as the SEC.....et al...

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 8 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:50:49 AM

Number: 9 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:50:30 AM

Comments from page 44 continued on next page

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b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

23. Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

24. Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

25. Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

VIII. Appendices

The Board's reproposal includes this Release ("release") and the following appendices:

- Appendix 1 contains reproposed amendments to PCAOB auditing standards for disclosure of the engagement partner.

Yes....

insofar as defraying the opportunities for fraud are concerned.....utilizing Big Data/Cloud Eco-systems reverse analytics....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 10 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:49:12 AM

Number: 11 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:48:03 AM

Dear Folks:

Advertise this section at the top of this Docket.....high light these guidlines.....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 12 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:47:09 AM

- Appendix 2 contains reproposed amendments to PCAOB auditing standards for disclosure of other accounting firms and other persons not employed by the auditor.

- Appendix 3 discusses in greater detail the requirements of the reproposed amendments, comments received, and the Board's responses to those comments.

IX. Opportunity for Public Comment

Interested persons are encouraged to submit their views to the Board. Written comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to comments@pcaobus.org or through the Board's website at www.pcaobus.org. All comments should refer to PCAOB Rulemaking Docket Matter No. 29 in the subject or reference line and should be received by the Board no later than 5:00 p.m. EST on February 3, 2014. The Board will consider comments received.

On the 4th day of December, in the year 2013, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 4, 2013

PCAOB
Public Company Accounting Oversight Board

1

APPENDIX 1

2 ***Reproposed Amendments to PCAOB Auditing Standards for Disclosure of the Engagement Partner*** [1/]

AU sec. 508, "Reports on Audited Financial Statements"

SAS No. 58, "Reports on Audited Financial Statements" (AU sec. 508, "Reports on Audited Financial Statements"), as amended, is amended as follows:

a. In paragraph .08, subparagraph c-1 is added, as follows:

The name of the engagement partner[4A] on the most recent period's audit.

Note: In cases in which the financial statements for all periods presented were audited during one audit engagement (for example, in an initial public offering or re-audit of multiple periods), the name of the engagement partner on the audits for all periods presented should be disclosed.

3 4 Note: In cases in which an auditor's report is dual dated and the engagement partner is changed after the original date of the report, the names of both engagement partners should be disclosed.

[4A] The term "engagement partner" has the same meaning as the term used in Auditing Standard No. 9, *Audit Planning*.

[1/] PCAOB Release No. 2013-005, *Proposed Auditing Standards—The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and related amendments to PCAOB Standards* (August 13, 2013), includes proposed amendments that would supersede, amend, or delete paragraphs for which amendments are included in the reproposed amendments. If, prior to the conclusion of this rulemaking, the Board has adopted amendments that affect the amendments 5 reproposed in this release, 6 the Board may make conforming changes to the reproposed amendments.

Page: 46

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:46:35 AM

Another fine example of PCAOB Guidance....just high light these pearls by bringing them up to the front....

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:45:38 AM

Number: 3 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:23:00 AM

This will make for a nice fraud trigger, don't you think....?

Number: 4 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:14:14 AM

Number: 5 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:15:34 AM

Dear Folks:

Will these 'conforming changes' also be opened up to Comments....?

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 6 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:14:46 AM

b. In paragraph .08, at the end of the first paragraph of the example report on financial statements covering a single year, the following new sentence is added:

The engagement partner on the audit resulting in this report was [name].

c. In paragraph .08, at the end of the first paragraph of the example report on comparative financial statements, the following new sentences are added:

The engagement partner on the audit for the [period] ended [date] was [name]. [*When the financial statements for all periods presented were audited during one audit engagement*: The engagement partner on the audits resulting in this report was [name]. *When the report is dual dated and the firm changes the engagement partner after the original date of the report*: The engagement partner on the audit for the period ended December 31, 20X2 was Partner A, except for Note Z, for which the engagement partner was Partner B.]

d. In paragraph .13, between the third and fourth sentences of the first paragraph of the example report indicating a division of responsibility, the following new sentence is inserted:

The engagement partner on the audit for the [period] ended [date] was [name].

e. In paragraph .34, at the end of the first paragraph of the example report on the balance sheet only, the following new sentence is added:

The engagement partner on the audit resulting in this report was [name].

f. In paragraph .44, at the end of the first paragraph of the example of a qualified report, the following new sentence is added:

The engagement partner on the audit for the [period] ended [date] was [name].

g. In paragraph .63, at the end of the first paragraph of the example of a report disclaiming an opinion, the following new sentence is added:

The engagement partner on the engagement for the [period] ended [date] was [name].

h. In paragraph .74, between the third and fourth sentences of the first paragraph of the example of a successor auditor's report, the following new sentence is inserted:

The engagement partner on the audit resulting in this report was [name].

AU sec. 9508, "Reports on Audited Financial Statements: Auditing Interpretations of Section 508"

AU sec. 9508, "Reports on Audited Financial Statements: Auditing Interpretations of Section 508," as amended, is amended as follows:

a. In paragraph .36, at the end of the first paragraph of the example *Report on Single Year Financial Statements in Year of Adoption of Liquidation Basis*, the following new sentence is added:

The engagement partner on the audit resulting in this report was [name].

b. In paragraph .36, at the end of the first paragraph of the example *Report on Comparative Financial Statements in Year of Adoption of Liquidation Basis*, the following new sentence is added:

The engagement partner on the audit for the [period] ended [date] was [name].

AU sec. 543, "Part of Audit Performed by Other Independent Auditors"

SAS No. 1, "Codification of Auditing Standards and Procedures," section 543 "Part of Audit Performed by Other Independent Auditors" (AU sec. 543, "Part of Audit Performed by Other Independent Auditors"), as amended, is amended as follows:

In paragraph .09, between the third and fourth sentences of the first paragraph of the example report indicating a division of responsibility, the following new sentence is inserted:

The engagement partner on the audit resulting in this report was [name].

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Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*

Auditing Standard No. 1 is amended as follows:

In paragraph 1 of the Appendix, at the end of the first paragraph of the illustrative report on an audit of financial statements, the following new sentence is added:

The engagement partner on the audit for the [period] ended [date] was [name].

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*

Auditing Standard No. 5 is amended as follows:

a. In paragraph 85, subparagraph d-1 is added, as follows:

The name of the engagement partner[18A/] on the most recent period's audit of internal control over financial reporting.

[18A] The term "engagement partner" has the same meaning as the term used in Auditing Standard No. 9, *Audit Planning*.

b. In paragraph 87, at the end of the first paragraph of the example report, the following new sentences are added:

The engagement partner on the audit for the [period] ended [date] was [name]. [*When the financial statements for all periods presented were audited during one audit engagement*: The engagement partner on the audit(s) resulting in this report was [name]. *When the report is dual dated and the firm changes the engagement partner after the original date of the report*: The engagement partner on the audit for the period ended December 31, 20X8 was Partner A, except for Note X, for which the engagement partner was Partner B.

APPENDIX 2

Reproposed Amendments to PCAOB Auditing Standards for Disclosure of Other Accounting Firms and Other Persons Not Employed by the Auditor[1/]

AU sec. 508, *Reports on Audited Financial Statements*

SAS No. 58, "Reports on Audited Financial Statements" (AU sec. 508, "Reports on Audited Financial Statements"), as amended, is amended as follows:

a. In subparagraph .11a, the text is replaced with the following:

The auditor's opinion is based, in part, on the report of another auditor, and the auditor makes reference to the audit of the other auditor pursuant to PCAOB standards (paragraphs .12 and .13).

b. In paragraph .11, subparagraph a-1 is added, as follows:

The auditor assumes responsibility, pursuant to AU sec. 543, for or is required to supervise, pursuant to Auditing Standard No. 10, *Supervision of the Audit Engagement*, the work of other independent public accounting firms or persons[10A] not employed by the auditor in the most recent reporting period's audit (paragraphs .14A through .14F).

[10A] PCAOB Rule 1001(p)(iv) defines the term "person" to mean any natural person or any business, legal or governmental entity, or association.

[1/] PCAOB Release No. 2013-005, *Proposed Auditing Standards—The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and related amendments to PCAOB Standards* (August 13, 2013), includes proposed amendments that would supersede, amend, or delete paragraphs for which amendments are included in the reproposed amendments. If, prior to the conclusion of this rulemaking, the Board has adopted amendments that affect the amendments reproposed in this release, the Board may make conforming changes to the reproposed amendments.

Page: 50

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:21:38 AM

Good Guidelines......

Here.....

however, you might want to raise their profile....a bit....say, for example....move to the top rather than the bottom....

Also, why so complicated....just tell us who did what, where the work was performed (you can borrow our GPS, if necessary)...and the names and addresses of the usual suspects involved......and since there are soooo many different ways to round up or down a financial statement we're not sure adding a percentage of participation greatly improves the accuracy of same.....just a thought...

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:41:36 AM

c. In paragraph .12, delete the title "*Part of Audit Performed by Other Independent Auditors*" from the parentheses.

d. In paragraph .13, in the example of a report indicating a division of responsibility,

- The last sentence of the first paragraph is replaced with the following:

  Those statements were audited by [name of other auditors and country of their headquarters' office location] whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of [name of other auditors].

- The last sentence of the second paragraph is replaced with the following:

  We believe that our audit and the report of [name of other auditors] provide a reasonable basis for our opinion.

- In the first sentence of the third paragraph, the phrase "other auditors" is replaced with "[name of other auditors]"

e. The following section header is inserted after the amended paragraph .13:

Auditor Assumes Responsibility for or is Required to Supervise the Work of Other Independent Public Accounting Firms or Persons Not Employed by the Auditor in the Most Recent Period's Audit

f. Paragraph .14A is inserted, as follows:

When another independent public accounting firm performs an audit of the financial statements of one or more of a company's subsidiaries, divisions, branches, components, or investments, or another independent public accounting firm or person not employed by the auditor perform audit procedures in the most recent period's audit, other than an independent public accounting firm whose audit is referred to pursuant to PCAOB standards and except as provided by paragraph .14B, the following items should be disclosed in the auditor's report through the addition of an explanatory paragraph, or a reference to an appendix that includes the required disclosure, following the opinion paragraph and any other explanatory paragraphs:

(1) With respect to other firms, the name of the firm(s); with respect to persons not employed by the auditor, the phrase "persons not employed by our firm," except as provided by paragraph .14D;

(2) The country(ies) of headquarters' office location of such firm(s) and the country(ies) of residence of natural persons or headquarters' office location of person(s) that are entities, except as provided by paragraph .14D;

(3) The percentage of the hours attributable to audits or audit procedures performed by such firm(s) or person(s) in relation to the total hours as of the date of the auditor's report in the most recent period's audit of the financial statements and, when applicable, internal control over financial reporting, which include the hours incurred in performing reviews pursuant to AU sec. 722, *Interim Financial Information*, (paragraphs .14C and .14D); and

> Note: In cases in which the financial statements for all periods presented were audited during one audit engagement (for example, in an initial public offering or re-audit multiple periods), the disclosure should state the percentage of audit hours attributable to the audits or audit procedures performed by such firms and such persons in relation to the total audit hours for all periods presented.
>
> Note: In cases in which an auditor's report is dual dated, the disclosure should be as of the second date of the auditor's report.

(4) A statement that the auditor is responsible for the audits or audit procedures performed by such firm(s) and persons and has supervised or performed procedures to assume responsibility for the work in accordance with PCAOB standards.

g. Paragraph .14B is inserted, as follows:

Excluded from the disclosures required by paragraph .14A are:

(1) The individual who performed the engagement quality review ("EQR");

(2) The person who performed the review pursuant to Securities and Exchange Commission Practice Section ("SECPS") 1000.45 Appendix K ("Appendix K review");

(3) Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee who provided direct assistance in the audit of internal control over financial reporting; and

(4) Internal auditors who provided direct assistance in the audit of the financial statements.

h. Paragraph .14C is inserted, as follows:

When the aggregate extent of participation of all other persons from the same country not employed by the auditor or the individual extent of participation of other independent public accounting firms is 5% or more of the total hours in the most recent period's audit, the percentage of hours attributable to audits or audit procedures performed by such persons and firms should be disclosed as a single number, or by listing such persons and firms within the applicable range(s) as follows: 5% to less-than-10%, 10% to less-than-20%, 20% to less-than-30%, 30% to less-than-40%, 40% to less-than-50%, 50% to less-than-60%, 60% to less-than-70%, 70% to less-than-80%, 80% to less-than-90%, and 90%-or-more.

i. Paragraph .14D is inserted, as follows:

When the aggregate extent of participation of all other persons from the same country not employed by the auditor or the individual extent of participation of other independent public accounting firms is less than 5% of the total hours in the most recent period's audit, the other persons or firms should be disclosed as a group titled "other persons not employed by our firm" or "other firms," respectively. In addition, the following items should be included in the disclosure:

(1) A statement that the aggregate extent of participation of such persons or the individual extent of participation of such firms is less than 5%;

(2) The aggregate extent of participation of each group—as a single number, in one of the ranges described in paragraph .14C, or in the range of less-than-5%, as applicable; and

(3) The number of firms in the group titled "other firms" or the number of countries in the group titled "other persons not employed by our firm."

Note: When other persons or firms are disclosed as a group in accordance with this paragraph, disclosure of a country of their headquarters' office location or residence is not required as such persons and firms are not individually identified.

j. Paragraph .14E is inserted, as follows:

Examples of the explanatory paragraph described in paragraph .14A follow:

An example of the explanatory paragraph for situations in which another independent public accounting firm performs certain audit procedures—In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, ABC Audit Firm (country of headquarters' office location) performed certain audit procedures. We are responsible for the audit procedures performed by ABC Audit Firm and, accordingly, have supervised its work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by ABC Audit Firm in our audit was X%.

An example of the explanatory paragraph for situations in which another independent public accounting firm performs an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments—In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, ABC Audit Firm (country of headquarters' office location) performed an audit of the financial statements of one of XYZ Company's subsidiaries. We are responsible for the audit performed by ABC Audit Firm, insofar as that audit relates to our expression of an opinion on the financial statements taken as a whole and, accordingly, have performed procedures to assume responsibility for its work in accordance with PCAOB standards. The portion of the total audit hours attributable to the audit performed by ABC Audit Firm in our audit was X%.

An example of the explanatory paragraph for situations in which persons not employed by the auditor perform certain audit procedures—In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, persons ([country of residence or headquarters' office location]) not employed by our firm performed certain audit procedures. We are responsible for the audit procedures performed by these persons and, accordingly, have supervised their work in accordance with PCAOB standards. The portion of the total audit hours attributable to audit procedures performed by these persons in our audit was X%.

k. Paragraph .14F is inserted, as follows:

An example of the explanatory paragraph using an appendix described in paragraph .14A follows:

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, the other independent public accounting firms listed in the Appendix to this report performed [*choose applicable*: audits of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or certain audit procedures], and persons not employed by our firm listed in the Appendix performed certain audit procedures. We are responsible for the audits and audit procedures performed by these other independent public accounting firms and persons not employed by our firm and, accordingly, have supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards.

APPENDIX

In our audit of the financial statements of XYZ Company and subsidiaries as of and for the year ended December 31, 20x2, the other independent public accounting firms listed below performed [*choose applicable*: audits of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or certain audit procedures], and persons not employed by our firm listed below performed certain audit procedures. The portion of the total audit hours attributable to audits and audit procedures performed by these firms and persons in our audit follows:

Other participants in the audit and their extent of participation

30% to less than 40%:
- ABC Audit Firm (country of headquarters' office location)

10% to less than 20%:
- Persons (country of residence or headquarters' office location) not employed by our firm
- JKL Audit Firm (country of headquarters' office location)

5% to less than 10%:
- Persons (country of residence or headquarters' office location) not employed by our firm

Other participants whose individual or aggregate extent of participation was less than 5%:

- [Fill in number] other firms, whose individual extent of participation was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of [fill in the appropriate range, as described in paragraph .14D].

- Other persons from [fill in number] countries not employed by our firm, whose aggregate extent of participation by country was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of [fill in the applicable range, as described in paragraph .14D].

AU sec. 543, "Part of Audit Performed by Other Independent Auditors"

SAS No. 1, "Codification of Auditing Standards and Procedures" section 543, "Part of Audit Performed by Other Independent Auditors" (AU sec. 543, "Part of Audit Performed by Other Independent Auditors"), as amended, is amended as follows:

a. In paragraph .04, the last sentence is deleted.

b. The following note is added after paragraph .04:

Note: When the principal auditor assumes responsibility for the work of the other auditor, paragraph .14A of AU sec. 508, *Reports on Audited*

Financial Statements, requires certain disclosures regarding the other auditor.

c. In paragraph .07:

- The following sentence is added after the third sentence:

  The report should also disclose the name of the other auditor and the country of headquarters' office location of the other auditor.

- The last sentence is deleted.

- Footnote 3 is deleted.

d. In paragraph .09:

- The last sentence of the first paragraph of the example report is replaced with the following:

  Those statements were audited by [name of other auditors and country of headquarters' office location] whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of [name of other auditors].

- The last sentence of the second paragraph of the example report is replaced with the following:

  We believe that our audit and the report of [name of other auditors] provide a reasonable basis for our opinion.

- In the first sentence of the third paragraph of the example report, the phrase "the other auditors" is replaced with "[name of other auditors]."

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, is amended, as follows:

Page: 57

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/16/2014 9:10:10 AM

Belief is not in question here, rather correctness, accuracy, truthfulness, honesty, veracity, and a fair representation of the financial health of the entity....simply put: "Our audit and the report by [name of other auditors] provides a fair, accurate, correct, truthful and honest basis for our opinion(s) during a specific sequential point-in-time. So help me God.

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:39:37 AM

a. In paragraph C1, subparagraph c-1 is added, as follows:

The auditor assumes responsibility, pursuant to AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, for or is required to supervise, pursuant to Auditing Standard No. 10*, Supervision of the Audit Engagement*, the work of other independent public accounting firms or persons[*] not employed by the auditor in the most recent period's audit of the company's internal control over financial reporting.

[*] PCAOB Rule 1001(p)(iv) defines the term "person" to mean any natural person or any business, legal or governmental entity, or association.

b. Paragraph C11-A is added, as follows:

The Auditor Assumes Responsibility for or is Required to Supervise the Work of Other Independent Public Accounting Firms or Persons Not Employed by the Auditor in the Most Recent Period's Audit of the Company's Internal Control Over Financial Reporting.

When another independent public accounting firm performs an audit of the financial statements of one or more of the company's subsidiaries, divisions, branches, components, or investments or when another independent public accounting firm or a person not employed by the auditor performs audit procedures in the most recent period's audit of the company's internal control over financial reporting and the auditor assumes responsibility for or supervises the work, the auditor should include the disclosures described in paragraph .14A of AU sec. 508, *Reports on Audited Financial Statements*, regarding the other independent public accounting firm or person not employed by the auditor in the auditor's report on the audit of internal control over financial reporting. If the auditor chooses to issue a separate report on internal control over financial reporting, the explanatory paragraph described by AU sec. 508.14A should follow the paragraph required by paragraph 88 in each separate report. Further, in each separate report, these explanatory paragraphs should include a reference to the same appendix, if an appendix is used pursuant to AU sec. 508.14A.

APPENDIX 3

Additional Discussion and the Board's Consideration of Comments on the 2011 Release

The release describes the Board's principal considerations for the reproposed amendments to certain PCAOB auditing standards, which are presented in Appendices 1 and 2.

On October 11, 2011, the Board proposed amendments to the Board's auditing standards that would have required disclosure of the name of the engagement partner in the auditor's report and disclosure in the auditor's report about other participants in the audit (the "2011 Release").[1/] Additionally, comments were made on the originally proposed amendments during meetings of the Board's Standing Advisory Group ("SAG") and Investor Advisory Group ("IAG").[2/]

This Appendix provides additional discussion of the Board's responses to comments raised by commenters on the originally proposed amendments, as well as the basis for the Board's preliminary views regarding certain requirements.

[1/] See *Improving the Transparency of Audits, Proposed Amendments to PCAOB Auditing Standards and Form 2,* PCAOB Release 2011-007 (October 11, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB_Release_2011-007.pdf.

[2/] The SAG discussed the 2011 Release at its meetings in November 2011 and May 2013. Transcripts of the relevant portions of the discussion are available on the Board's website at http://pcaobus.org/Rules/Rulemaking/Pages/Docket029.aspx. Archived webcasts are also available on the Board's website at http://pcaobus.org/News/Webcasts/Pages/11092011_SAGMeeting.aspx and http://pcaobus.org/News/Webcasts/Pages/05152013_SAG.aspx.

The IAG also discussed this at its May 4, 2010 and October 16, 2013 meetings. See the summary of the May 4, 2010 meeting available at http://pcaobus.org/News/Events/Pages/05042010_IAGMeeting.aspx and IAG meeting details and webcast for the October 16, 2013 meeting available at http://pcaobus.org/News/Webcasts/Pages/10162013_IAGMeeting.aspx.

I. Board's Consideration of Comments on the 2011 Release to Require Disclosure of the Engagement Partner

A. Providing Useful Information to Investors and Other Financial Statement Users

The 2011 Release sought comments on whether additional transparency about the identity of the person responsible for the engagement would provide investors and other financial statement users with useful information. A number of varying views were expressed regarding the usefulness of the proposed disclosure.

Commenters who supported the proposed disclosure generally believed that disclosing the engagement partner's name in the auditor's report would provide investors and other financial statement users with useful information. For example, one commenter stated that, while signing the auditor's report with the engagement partner's name "would be responsive to the information needs of investors," they "would not object to a final standard requiring disclosure of the engagement partner's name, rather than signature, in the audit report" because it would have most of the same potential benefits as a signature requirement.[3/]

Further, a group of academics wrote in a comment letter that, "based on existing research, there is reason to believe that disclosure of the engagement partner's name in the auditor's report would enhance investor protection" and that "investors may find this information useful." The letter also stated that "requiring disclosure would provide market participants with potentially useful information."[4/] An association of accountants in its letter stated that it "fully supports the aim of improving transparency of audits and believes that including the name and the signature of the engagement partner responsible for the audit will contribute to achieve this."[5/]

[3/] See letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Office of the Secretary, PCAOB (January 5, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/022b_CII.pdf.

[4/] See letter from Auditing Standards Committee, Auditing Section—American Accounting Association, to Office of the Secretary, Public Company Accounting Oversight Board (January 9, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/024b_AAA.pdf.

[5/] See letter from Philip Johnson, President, Federation of European Accountants, to Office of the Secretary, PCAOB (December 7, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/009b_FEE.pdf.

A variety of commenters, however, questioned the usefulness of providing users of the auditor's report with the engagement partner's name. Some commenters noted that the audit committee, which selects the auditor, already has information about the engagement partner's identity and qualifications. For example, one commenter stated that, "[t]ypically, when a new engagement partner is introduced to an audit committee, the committee is presented with the qualifications of the engagement partner, including experience with audits of similarly complex entities and specialized industries."[6/] Other commenters believed that the disclosure would distort the user's perception of the role the firm plays in the conduct of the audit. Finally, some commenters were concerned about incorrect inferences investors and other financial statement users would make about the quality of audits or qualifications of the engagement partners.

Consistent with views expressed by investors in comment letters on the 2011 Release, comments made by a number of investors in meetings of the Board's SAG and IAG suggest that they see value in learning the identity of the engagement partner. Some investors, for example, indicated that the engagement partner's expertise would be relevant in ratifying the company's choice of a registered firm as its auditor.

The Board believes that disclosure of the engagement partner's name in the auditor's report would provide valuable information to investors and other financial statement users. Making the identity of the engagement partner publicly available would, over time, enable investors and other financial statement users to research the number, size, and nature of companies that the partner has audited, and industries that the partner has served as engagement partner. The disclosure also would enable investors and other financial statement users to determine whether the engagement partner was named in a public disciplinary proceeding, or it would inform shareholders' decisions about whether to ratify the company's choice of registered firm as its auditor.

Having considered the comments received on the 2011 Release, views of investors expressed in SAG and IAG meetings, and academic research, the Board is reproposing the disclosure of the engagement partner's name in the auditor's report substantially as proposed.

The reproposed amendments do not change the accounting firm's role in performing the audit or in issuing the auditor's report or any of the engagement partner's responsibilities. The engagement partner remains responsible for the audit and its

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[6/] See letter from Richard E. Piluso, President, New York State Society of Certified Public Accountants, to Office of the Secretary, PCAOB (January 4, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/018b_NYSSCPA.pdf.

performance, as described by Auditing Standard No. 10, *Supervision of the Audit Engagement*. The only signature on an auditor's report would continue to be that of the accounting firm.

B. Other Considerations

1. Disclosure in Reissued Auditor's Reports of Predecessor Auditors

In situations in which a predecessor auditor has been asked to reissue the auditor's report on the financial statements of a prior period, existing standards require the auditor to consider whether the auditor's report on those statements is still appropriate after certain required procedures are performed.[7/] If the predecessor auditor determines that the auditor's report is still appropriate and the auditor's report is reissued, the disclosure of the engagement partner in the audit need not be repeated in that auditor's report. Since the disclosure of the engagement partner in the audit is required only for the most recent period's audit, the reproposed amendments would not require the disclosure of the engagement partner in the audit in the reissued report of the predecessor auditor for prior years.

2. Reputational Considerations

Some commenters expressed concern that an engagement partner's reputation could be unfairly harmed due to association with an audit. For example, some commenters suggested that users of the auditor's report might misinterpret the role of a partner in a restatement of the company's financial statements.[8/] Some commenters stated that some partners might be reluctant to serve on the audits of certain issuers or to remain in the accounting profession because of reputational risk associated with the disclosure of their names.

As noted earlier in this release, requiring disclosure of engagement partners is intended to increase transparency about who led the audit. By increasing transparency, the reproposed amendments, if adopted, are intended to improve the usefulness of information available to investors and other financial statement users. Allowing

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[7/] See paragraphs .70-.73 of AU sec. 508, *Reports on Audited Financial Statements*, which discuss the report of a predecessor auditor.

[8/] The Board notes that restatements occur for a variety of reasons, including corrections of errors in prior-year financial statements, identification of new information related to a particular account or disclosure, and retrospective application of new accounting pronouncements.

investors, shareholders, audit committee members and other market participants to consider an engagement partner's past work and reputation would be an intended result of the reproposed amendments.

The Board has, of course, considered whether investors might misunderstand the disclosure or make unfair or unwarranted assumptions about engagement partners as a result of the requirement. A fundamental premise of the federal securities laws is that the disclosure of relevant and accurate information enhances market efficiency by improving investors' ability to decide how to allocate their capital. The names of a public company's officers and directors—as well as its audit firm—are routinely disclosed in its public filings. The Board believes that investors and other market participants would be able to understand and make appropriate use of the disclosure required by the reproposed amendments.

One commenter also expressed concern that "[u]nder the proposed rule, underwriters might eventually develop a sub-set of 'approved engagement partner' or partners with specialized industry knowledge, despite the fact that industry expertise might be provided by other than the engagement partner, and in some engagements in some firms, by an individual below the level of partner."[9/] The expertise of other members of the audit engagement team, however, cannot substitute for lack of the engagement partner's industry expertise. PCAOB standards on quality control contain specific requirements regarding industry expertise that the engagement partner should possess. For example, the engagement partner should possess "an understanding of the industry in which a client operates. In performing an audit or review of financial statements, this understanding would include an industry's organization and operating characteristics sufficient to identify areas of high or unusual risk associated with an engagement and to evaluate the reasonableness of industry specific estimates."[10/]

3. Personal Security

On July 28, 2009, the Board issued a concept release to seek commenters' views on whether it would be advisable for the Board to require the engagement partner

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[9/] See letter from Richard E. Piluso, President, New York State Society of Certified Public Accountants to Office of the Secretary, PCAOB (January 4, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/018b_NYSSCPA.pdf.

[10/] Paragraph .08 of QC Section 40, *The Personnel Management Element of a Firm's System of Quality Control—Competencies Required by a Practitioner-in-Charge of an Attest Engagement*.

to sign his or her own name to the auditor's report ("2009 Release").[11] In the 2009 Release, the Board noted that the European Union's ("EU's") Eighth Company Law Directive requires a natural person to sign the auditor's report but allows for an exception "if such disclosure could lead to an imminent and significant threat to the personal security of any person."[12] Some commenters on the 2009 Release suggested that such an exception could be necessary if a signature requirement is adopted. Other commenters did not believe an exception was necessary.

The Board originally proposed the requirement to disclose the engagement partner's name without an exception analogous to that in the EU's Eighth Directive. In the 2011 Release, the Board sought comment on whether the proposed disclosure would create particular security risks that warrant treating auditors differently from others involved in the financial reporting process.

In general, comments on the 2011 Release with respect to personal security were similar to comments on the 2009 Release. Some of the commenters believed that naming the engagement partner may create security risks for the engagement partner, and that even the perception of increased personal security concerns could have a negative impact on accounting firms' ability to recruit and retain the most qualified professionals. Other commenters indicated that auditors should not be treated differently, for security purposes, than other individuals involved in the financial reporting process who are publicly associated with an issuer's filing, or that personal security risks would increase as a result of the proposed disclosure.

After considering the comments received, the Board has not included an exception to the disclosure requirement analogous to that in the EU's Eighth Directive in the reproposed amendments. Further, a requirement to disclose the engagement partner's name has been in place in certain foreign jurisdictions for quite some time, yet no specific experience brought to the Board's attention provided persuasive information that personal risks to the engagement partners would increase as a result of these requirements.

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[11] See *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, PCAOB Release 2009-005 (July 28, 2009) available at http://pcaobus.org/Rules/Rulemaking/Docket029/2009-07-28_Release_No_2009-005.pdf.

[12] Directive 2006/43/EC of the European Parliament and of the Council, Article 28, Audit Reporting (May 17, 2006) available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006L0043:en:NOT.

II. Board's Consideration of Comments in the 2011 Release Relating to Other Participants in the Audit

A. Applicability of, and Exclusions from, the Disclosure

The reproposed amendments describe those participants in the audit to whom the requirements are applicable and those participants that are excluded from the disclosure.

1. Applicability of the Disclosure

The reproposed amendments to the Board's auditing standards would require the auditor to disclose information about independent public accounting firms and other persons not employed by the auditor that took part in the audit under arrangements pursuant to either AU sec. 543, *Part of the Audit Performed by Other Independent Auditors*,[13/] or Auditing Standard No. 10, as applicable.

The commenters' views on the usefulness, and therefore applicability, of the proposed disclosure were divided. Some commenters believed that the proposed disclosure would provide useful information, whereas others did not see value in including in the auditor's report information about the other participants. Some such commenters were concerned that the proposed disclosure may cause confusion over who has responsibility for the audit. Some other commenters believed that the evaluation of the other participants should be performed by the audit committee, who selects the auditor, rather than by investors.

For reasons previously described, the Board is reproposing the amendments to provide information about other participants in the audit. The required disclosure states that the auditor is responsible for the audits and audit procedures performed by the other participants in the audit. Thus, the disclosure would provide accurate and descriptive information to readers of the auditor's report regarding the responsibilities of the parties involved in the audit.

The Board recognizes that the audit committee generally has greater access to information about the auditor and other participants in the audit than investors and other financial statement users because of the audit committee's role in the appointment, compensation, and oversight of the company's auditor.[14/] This does not mean that

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[13/] See AU secs. 543.03-.05.

[14/] Paragraph 10.d. of Auditing Standard No. 16, *Communications with Audit Committees*, requires the auditor to communicate to the audit committee, among other information about the auditor and other participants in the audit would not also be useful to investors and other financial statement users, nor that enhanced transparency would not also assist audit committee members in performing their roles.

In addition to the more general comments on the requirements, one commenter raised a concern regarding the applicability of the proposed disclosure to alternative practice structures. Specifically, the commenter expressed a concern that alternative practice structures could be viewed negatively if a large number of individuals on audit engagements are disclosed in the auditor's report as non-employees of the audit firm. The Board's standards describe alternative practice structures as "nontraditional structures" whereby a substantial (the nonattest) portion of an accounting firm's practice is conducted under public or private ownership, and the attest portion of the practice is conducted through the accounting firm.[15/] Employee sharing or employee leasing arrangements between an accounting firm and a secondary party are a common form of alternative practice structures.

The originally proposed amendments were intended to provide investors and other financial statement users with greater transparency into the other participants in the audit, including other persons. After considering comments received, no change was made regarding the applicability of the requirement with respect to alternative practice structures. However, as described in the next section of this Appendix, the Board has modified the amendments so that the other persons not employed by the auditor would be listed in the disclosure as "persons not employed by our firm," rather than identified by their names. The other accounting firms participating in the audit would continue to be identified by their names.

2. Exclusions from the Disclosure

Similar to the 2011 Release, the reproposed amendments exclude the following participants in the audit from the disclosure requirements:

- Individuals performing the engagement quality review ("EQR");[16/]

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information, the names, locations, and planned responsibilities of the other independent public accounting firms or other persons not employed by the auditor that perform audit procedures in the current period audit.

[15/] ET section 101.16, *101.14 – The effect of alternative practice structures on the applicability of independence rules*.

[16/] See Auditing Standard No. 7, *Engagement Quality Review.*

- Persons performing a review pursuant to Appendix K ("Appendix K review");[17/] and
- Persons employed or engaged by the company who provided direct assistance to the auditor, including:
  - Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting;[18/] and
  - Internal auditors who provided direct assistance in the audit of the financial statements.[19/]

Similar to the 2011 Release, the reproposed amendments exclude individuals performing the EQR because the EQR is intended to be an objective second look at work performed by the engagement team, and the reviewers' work is not supervised by the auditor in accordance with Auditing Standard No. 10. Similarly, persons performing the Appendix K review would be excluded because the auditor does not supervise or assume responsibility for the Appendix K review. Finally, persons employed or engaged by the company who provide direct assistance to the auditor would be excluded because determining the extent of their participation in the audit may be impractical. Such persons also may perform other tasks for the company not related to providing direct assistance to the auditor or may not track time spent on providing the direct assistance.

The 2011 Release also excluded persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing. After further considering the role of such persons in the audit, the Board proposes to require, rather than exclude, disclosure in the auditor's report of persons with specialized skill or knowledge in a particular field other than accounting or auditing.

[17/] See Securities and Exchange Commission Practice Section ("SECPS") 1000.45 Appendix K, *SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants.* The Board adopted the requirements of the SECPS of the American Institute of Certified Public Accountants as part of its interim standards.

[18/] See paragraph 17 of Auditing Standard No. 5.

[19/] See paragraph .27 of AU sec. 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.

Currently, persons employed by the auditor with specialized skill or knowledge are supervised in accordance with Auditing Standard No. 10, while AU sec. 336*, Using the Work of a Specialist*, governs the auditor's use of persons engaged by the auditor with specialized skill or knowledge. As discussed below, persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing would be disclosed as "persons not employed by our firm." The Board believes that disclosure about the location and extent of participation of these other participants would be as relevant to investors and other financial statement users as information about any other participants in the audit.

B. Information to be Disclosed

The 2011 Release included the following disclosure requirements in an explanatory paragraph to the auditor's report:

- The names of other participants in the audit (including the financial statement audit and, when applicable, the audit of internal control over financial reporting, and reviews pursuant to AU sec. 722, *Interim Financial Information*);

- The location of other participants in the audit (the country of headquarters' office location for a firm and the country of residence or headquarters' office location of another person); and

- The percentage of hours attributable to the audits or audit procedures performed by the other participants in the audit in relation to the total hours in the most recent period's audit ("the percentage of the total hours in the most recent period's audit").

In general, commenters expressed their support for the disclosure, although some commenters suggested certain modifications. Those suggested modifications, and the Board's responses, are described below.

1. Disclosing Names of the Accounting Firms vs. Other Persons Not Employed by the Auditor

As described previously, one commenter raised a concern regarding the applicability of the proposed disclosure relating to other persons not employed by the auditor in relation to alternative practice structures. Specifically, the commenter requested a change in the applicability of the requirement to exclude alternative practice structures.

The Board made no such change; however, the originally proposed amendments have been modified so that the other persons not employed by the auditor would be listed in the disclosure as "persons not employed by our firm," rather than identified by their names.[20/] For instance, such persons may include persons with specialized skill or knowledge in a particular field other than accounting or auditing. The Board recognizes that while other persons may participate in the audit, the intent of the 2011 Release principally was to capture the names of accounting firms. The Board's website includes names of registered accounting firms, inspection reports, and disciplinary actions.

The names of other types of companies or individuals not employed by the auditor may not be as meaningful as the fact of their participation and the location where the work was performed. The reproposed amendments would require disclosing the location of such persons (depending on the extent of participation) and the percentage or range of their extent of participation—combined, if there are multiple other persons from the same country not employed by the auditor.[21/] The disclosure of the location and extent of participation in the audit of other participants would allow users to understand whether the other participants are headquartered or reside in the auditor's home country or in other jurisdictions, as well as how much of the audit was performed by those other participants.

2. Affiliate Relationships, Including Offshoring Arrangements

Some commenters suggested that the disclosure of affiliated accounting firms should be different from the disclosure of non-affiliated firms. For example, such commenters recommended disclosing that the affiliated firms follow a common audit methodology and employ consistent quality controls. Some of these commenters and others also recommended describing the auditor's oversight of affiliated firms

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20/ While the reproposed amendments do not include a requirement to describe alternative practice structure arrangements, the reproposed amendments would not prohibit the accounting firm issuing the auditor's report from including additional language in the auditor's report describing that the firm leases its employees as part of its alternative practice structure. However, any additional language that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's responsibility for the audit or the auditor's opinion on the financial statements is not appropriate and may not be used.

21/ The location for a natural person is the country of residence. The location of a person that is an entity is the country of the entity's headquarters' office location.

participating in the audit. Other commenters suggested that accounting firms affiliated with the auditor should not be disclosed at all.

Another group of commenters noted that many of the smaller accounting firms, unlike larger firms, routinely use participants from outside the firm in their audits as they are not part of a network of firms. In some of these commenters' views, the proposed disclosure of non-affiliated firms or persons not employed by the firm may suggest to some that audits conducted by smaller accounting firms are of inferior quality.

The Board considered these comments and decided that the same disclosure requirements would apply to all accounting firms, whether or not a firm is affiliated with an audit network. The arrangements by which firms affiliate with one another and the related effect on the affiliated firms' quality controls varies. The Board is reproposing disclosure requirements that would provide users of the auditor's report with the names and locations of other accounting firms involved in the audit regardless of their network affiliation or other relationship. Regarding an additional disclosure of the auditor's oversight of other participating affiliated firms, as suggested by some commenters, the reproposed amendments, like the proposed amendments, clearly describe the auditor's oversight and supervision of the disclosed participants. Accordingly, no such additional disclosure requirement was added to the reproposed amendments.

The 2011 Release also noted that some accounting firms had begun a practice, known as offshoring, whereby certain portions of the audit are performed by offices of the accounting firm issuing the auditor's report in a country different than the country where the firm is headquartered. While large U.S. accounting firms have, for some time, referred audit work on U.S.-based, multinational corporations to their foreign network affiliates, the practice of sending some audit work to offshore service centers, typically in countries where labor is inexpensive, has been increasing in recent years. In the 2011 Release, the Board explained that the proposed amendments would not require disclosure of offshoring arrangements to the extent that the offshored work is performed by another office of the same accounting firm.

Some commenters agreed with the Board's proposed treatment of offshoring, while others suggested that disclosure of all offshoring arrangements should be required. Other commenters did not believe the proposed amendments should require disclosure of any offshoring arrangements. For example, one commenter stated that "assessment of the impact of these sorts of arrangements is the responsibility of the audit committee, not the marketplace."[22/]

One commenter stated that "[t]he proposed amendments are not clear how to make the determination whether an off-shore location should be considered another office of the firm," rather than a separate entity requiring disclosure. This commenter noted that "firms may structure their operations in separate legal entities" that "often are wholly-owned and controlled by the registered public accounting firm and its partners," and recommended that the reproposed amendments use "different criteria than those proposed in the Release" to determine if disclosure was required. Specifically, this commenter recommended that the Board not require disclosure when offshored work "is subject to the direct supervision and review of the principal auditor" and the principal auditor retains "[d]etails of the work performed" in its home country.[23/]

After considering the comments, the Board has determined to address the disclosure of offshoring arrangements in the reproposal as originally proposed. Thus, disclosure would not be required when offshored work is performed by an office of the firm that issues the auditor's report, but it is required when it is performed by a separate firm or entity.[24/] The Board understands that offshored work often is performed by companies that are distinct from, but that may be affiliated in some way with, the registered firm that issues the report. Disclosure of these participants in the audit would be consistent with the overall objective of the amendments the Board is reproposing and is an application of the reproposed requirement to disclose other audit participants notwithstanding any network affiliation or other relationship.

[22/] See letter from James L. Fuehrmeyer, Jr., Associate Teaching Professor, University of Notre Dame to Public Company Accounting Oversight Board, Attention: Office of the Secretary (December 13, 2011) available at http://pcaobus.org/Rules/Rulemaking/Docket029/012b_JLF.pdf.

[23/] See letter from KPMG LLP to Office of the Secretary, Public Company Accounting Oversight Board (January 5, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/019b_KPMG.pdf.

[24/] If the offshore entity is a "public accounting firm," as defined by Rule 1001(p)(iii), the auditor's report should include the disclosures required when another independent public accounting firm participates in the audit. If the offshore entity is not a "public accounting firm," the auditor's report should make the disclosures required when persons other than the auditor's full-time, permanent employees participate in the audit.

3. Nature of Work

In the 2011 Release, the Board asked for comments on whether the disclosure in the auditor's report should include a discussion of the nature of the work performed by other participants in addition to the extent of participation.

Some commenters recommended disclosing the nature of the work performed by the other participants because, in these commenters' views, it would provide more meaningful information about the other participants' involvement in the audit than the other participants' share of audit hours. Other commenters, however, believed that if the nature of work were required to be disclosed, the disclosure language could eventually become boilerplate. Many other commenters disagreed with disclosing the nature of the work. After considering the commenter's views, no requirement for disclosure of the nature of the work performed by other participants was added because the Board does not believe that requiring the disclosure of this more detailed information is necessary to achieve the Board's intended objective of providing more transparency of participants in the audit.[25/]

4. Firm's Registration and Board's Ability to Inspect

Although it was not proposed, some commenters believed that a disclosure of other accounting firms participating in the audit should include information about the firm's registration status with the PCAOB and the Board's ability to inspect in the jurisdiction in which the firms are located.

The Board recognizes that some auditors, their overseas offices, and other participants in the audit are located in jurisdictions in which the Board currently is unable to conduct inspections.[26/] However, a requirement to disclose a participating accounting firm's registration status or the Board's ability to inspect in foreign countries was not added to the reproposed amendments. Such disclosures would (1) duplicate information

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[25/] While the reproposed amendments do not include a requirement to describe the nature of the work performed, the reproposed amendments would not prohibit the accounting firm issuing the auditor's report from including a description of the work performed by other participants in the audit. However, any description of the work performed that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's responsibility for the audit or the auditor's opinion on the financial statements is not appropriate and may not be used.

[26/] The Board is actively pursuing the necessary arrangements that would enable the Board to conduct inspections in all relevant foreign jurisdictions.

that is already publicly available on the Board's website and (2) not reflect any changes that took place after the auditor's report date.[27/] Users of the auditor's report would be able to obtain the most up-to-date registration and inspection information from the Board's website based on the name and location of an accounting firm disclosed in the auditor's report.

C. Extent of Participation

The originally proposed requirements included a 3% threshold for disclosing the other participants' relative participation in the audit. As originally proposed, the amendments would have required other participants in the audit whose individual extent of participation would have been 3% or more of the total hours in the most recent period's audit to be disclosed individually with their respective extent of participation. Those other participants in the audit whose individual extent of participation would have been less than 3% would be disclosed either individually or as a group.

As described below, comments were expressed about the originally proposed disclosure metric and disclosure threshold.

1. Disclosure Metric

The reproposed amendments, like the originally proposed amendments, would require that the percentage of the total hours in the most recent period's audit be determined as of the date of the auditor's report for each other accounting firm or other person participating in the audit. The reproposed disclosure requirements would apply only to the most recent period under audit.

In cases in which the financial statements for all periods presented were audited during one audit engagement (for example, in an initial public offering, single-period audit, or re-audit of multiple periods), the auditor would be required to disclose, as was proposed, the percentage of audit hours attributable to the audits or audit procedures performed by other participants in the audit in relation to the total audit hours for all periods presented. Section II.D., *Presentation in the Report*, later in this Appendix, includes a discussion of the disclosure in cases in which the auditor's report is dual dated.

[27/] See generally, http://pcaobus.org/Registration/Pages/default.aspx, http://pcaobus.org/International/Pages/default.aspx, and http://pcaobus.org/Inspections/Pages/default.aspx for publicly available information about inspections and registration-related information.

Most commenters agreed with using the percentage of audit hours as the metric for disclosing the extent of participation. Some commenters suggested using other metrics that, in their view, would be more appropriate, for example, audit fees, the extent to which the auditor and other participants were responsible for auditing the assets and revenue of the company, and the company's segment or subsidiary audited by the other participants.

When developing the proposed amendments, metrics similar to those suggested by commenters were considered. For instance, the Board considered audit fees incurred in the most recent period's audit by other participants in the audit as a percentage of audit fees in the issuer's proxy disclosure. However, the Board concluded that this measure may not be representative of the extent of other participants' participation in the audit because audit fees in the proxy disclosure may include fees for other services (for example, other regulatory and statutory filings) and also may exclude fees paid directly to other participants rather than to the auditor.

Another metric considered was the percentage of revenues or assets tested by other participants. AU sec. 543 currently uses this metric when the auditor divides responsibility with the other auditor who audited part of the company. However, the use of this metric may not be suitable in all circumstances, particularly when both the other participants and the auditor perform audit procedures on the same location, business unit, or financial statement line item. For instance, other participants in the audit might perform an inventory observation to test the existence of the inventory at a particular location, and the auditor might test the valuation of the inventory at all locations, including the one tested by the other participants.

The Board continues to be of the view that the percentage of total hours in the most recent period's audit appears to be the most relevant and practical metric for the purpose of disclosure of the extent of other participants' participation in the audit. The reproposed amendments, like the proposed amendments, would require the use of this metric.

2. Disclosure Threshold

The originally proposed amendments would have required the auditor to state the percentage of hours attributable to the audits or audit procedures performed by other participants in the audit in relation to the total hours in the most recent period's audit. Specifically, the Board proposed requiring that other participants in the audit whose individual extent of participation would have been 3% or more of total hours in the most recent period's audit were to be disclosed individually with their respective extent of participation. Those other participants in the audit whose individual extent of participation would have been less than 3% were to be disclosed either individually or as a group titled "other participants" with the group's aggregate extent of participation.

The Board received many comments on the proposed threshold. Some of the commenters suggested that a 3% threshold is too low because it would result in disclosing information that is not meaningful to the users of the auditor's report. In the view of these commenters, a higher threshold would be more appropriate and useful. For example, a couple of commenters suggested the percentage should be the same as the 10% of revenue threshold for disclosing sales to a single customer under Financial Accounting Standards Board pronouncements.[28/] Other commenters believed that the threshold should be 20%, as in the substantial role criteria for registration with the Board.[29/] In contrast, another commenter suggested that a 1% threshold would provide the most meaningful information to users of the auditor's report about the extent of the other participants' participation in the audit.

The Board's intention is to provide meaningful information to investors and other financial statement users about participants in the audit. In light of the commenters' recommendations for a higher threshold, the Board's staff analyzed the impact of raising the threshold on the disclosure of other participants in a number of larger audit engagements.[30/] According to the analysis, the maximum number of other participants

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[28/] See Financial Accounting Standards Board Accounting Standards Codification, Topic 280, Segment Reporting, subparagraph 10-50-42.

[29/] According to paragraph (p)(ii), "Play a Substantial Role in the Preparation or Furnishing of an Audit Report," of PCAOB Rule 1001, *Definitions of Terms Employed in Rules*, "[t]he phrase 'play a substantial role in the preparation or furnishing of an audit report' means—(1) to perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report with respect to any issuer, or (2) to perform the majority of the audit procedures with respect to a subsidiary or component of any issuer the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer necessary for the principal accountant to issue an audit report on the issuer." Under Rule 2100, each public accounting firm that "plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer must be registered with the Board."

[30/] The Board's staff analyzed information provided by auditors of more than 100 larger issuers with respect to audit engagements conducted in 2011 and 2012. The selected information included the names of other participants in the audit and their individual extent of participation as the percentage of the total audit hours, without using a threshold. The Board's staff used this information to determine the approximate number of other participants in larger audit engagements that would be required to be disclosed individually using a 3%, 5%, and 10% threshold.

disclosed individually using a 3%, 5%, and 10% threshold was 10, 7, and 3, respectively, per issuer.

Taking into account the comments received and the results of the analysis described above, the disclosure threshold in the reproposed amendments was raised from 3% to 5%. In the Board's view, using a 10% threshold could significantly reduce visibility into participants performing a large part of an audit, compared with using a 3% threshold or a 5% threshold.[31/]

The reproposed amendments would require the auditor to disclose other participants in the audit whose individual extent of participation is 5% or more of the total hours in the most recent period's audit. The extent of participation would be disclosed either as a single number or within a range (see Section II.D., *Presentation in the Report,* in this Appendix for further discussion on disclosure within ranges). Only public accounting firms whose individual contribution to the audit exceeded 5% of total audit hours would have their names and locations disclosed. With respect to other persons, to the extent that such persons reside or are headquartered in the same country, those persons whose aggregate contribution to the audit exceeded 5% of total audit hours would be disclosed as "persons in [insert country] not employed by our firm."

Finally, those who commented on the disclosure of other participants with the extent of participation below the threshold generally believed that it would be more appropriate to disclose such other participants as a group, rather than individually. This is consistent with the reproposed amendments. Accordingly, for those other participants in the audit whose individual extent of participation is less than 5% of the total hours (if there is more than one other person not employed by the auditor from the same country, their combined extent of participation should be used for this purpose), the reproposed amendments would require the auditor to disclose them as a group and state their aggregate extent of participation either as a single number or as a range. Other independent public accounting firms and persons not employed by the auditor would be required to be disclosed in separate groups. The reproposed amendments also would require the auditor to disclose the number of accounting firms whose individual extent of participation is below the 5% threshold.

[31/] Based on the staff's analysis, raising the threshold from 5% to 10% could result in disclosing four fewer participants in an audit. More than a third of an audit could be performed by four participants whose extent of participation is individually 9% of the total audit hours.

D. Presentation in the Report

The reproposed amendments would require the auditor to make the required disclosures about other participants in the audit in the auditor's report. Specifically, the auditor would be required to add an explanatory paragraph to the auditor's report and also may include a reference to an appendix to the report. The following section discusses consideration of the disclosure in the auditor's report, how the information would be presented, and considerations for when an auditor's report is dual dated.

1. Disclosure in the Auditor's Report

The Board originally proposed that the disclosure of information about other participants in the audit be made in the auditor's report for the most recent period's audit as an explanatory paragraph that would be presented after the opinion on the financial statements and, when applicable, the opinion on the effectiveness of internal control over financial reporting and other explanatory paragraphs. The 2011 Release also noted that the explanatory paragraph could include a reference to an appendix immediately following the auditor's report that would include the required disclosure of other participants in the audit. Further, the 2011 Release noted that some auditors may prefer this alternative in audits in which there is more than one other participant in the audit. The 2011 Release stated that if the auditor issues separate reports on the financial statement audit and the audit of the effectiveness of internal control over financial reporting, the explanatory paragraph in each separate report should include a reference to the same appendix. Illustrative disclosure examples were also included in the originally proposed amendments.

Those commenters who supported the originally proposed amendments agreed with the proposed presentation in the auditor's report. Two opponents of the disclosure in the auditor's report suggested that consideration be given to utilizing Form 2 for the disclosure of other participants. One of these commenters suggested that Form 2 "would be a more useful location for such disclosures, as the determination of information in SEC filings is more appropriately maintained within the SEC's jurisdiction, Form 2 disclosures would not lengthen issuer and broker-dealer filings with tangential information, and Form 2 disclosures would not be subject to the estimation of hours necessitated by the short time constraints for SEC filings."[32/] The other commenter

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[32/] See letter from Tom Quaadman, Center for Capital Market Competiveness of the U.S. Chamber of Commerce, to J. Gordon Seymour, Secretary, PCAOB (January 9, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/029b_Chamber.pdf.

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Number: 1 9:00:22 AM | Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC | Subject: Highlight | Date: 3/16/2014 believed that "Form 2 would allow investors, audit committees, and other third parties that seek the name of . . . other audit participants to obtain such information from one location."[33/]

After considering the views of these commenters and the advantages and disadvantages of disclosure on Form 2,[34/] the Board determined that the disclosures would be best presented in the auditor's report. As such, the Board is reproposing such disclosure in the auditor's report through an explanatory paragraph with illustrative examples substantially as proposed.

2. Presentation as a Single Number or as Ranges

The Board originally proposed that the extent of participation of the other participants in the audit be presented as a single number.

Some commenters on the 2011 Release cautioned about potential difficulties for auditors in determining an exact percentage of the total audit hours attributable to the other participants in the audit. For instance, in the commenters' view, extra effort may be required for determining separately the other participants' time spent on consolidated and local statutory audits, or determining whether time incurred on performing interim reviews, engagement acceptance and retention procedures, or review of the predecessor auditor's work should be included in the total audit hours.

Many of these commenters suggested that this type of disclosure could be costly to prepare and disruptive for both the auditor and other participants in the audit. These commenters recommended disclosing the extent of participation in ranges (for example, X%-Y%) rather than as a single number as the information would still be useful for the reader, but obtaining and presenting it would be less costly and disruptive. The commenters suggested various ranges for such a disclosure.

Having considered comments on the originally proposed amendments, the Board modified the originally proposed requirements to propose presentation of the extent of participation within a range or as a single number. In calculating the percentage of the

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[33/] See letter from Grant Thornton LLP to Office of the Secretary, PCAOB (January 9, 2012) available at http://pcaobus.org/Rules/Rulemaking/Docket029/036b_GT.pdf.

[34/] Refer to Section V.C.2., Economic Considerations, Alternatives Considered, *Disclosure in Firms' Annual Reports Filed with the PCAOB on Form 2*, in the release for further discussion of this alternative.

total audit hours in the most recent period's audit,[35/] the auditor may estimate the total hours for the audit and the portion of hours attributable to each participant in the audit in situations in which the actual number of hours has not been reported. Further, the staff's analysis, described earlier, indicated that generally there are more participants in the range of 5% to less-than-10% than in the range of over 10%. The analysis also indicated that—cumulatively—participants whose extent of participation is less than 10% could perform a significant part of the audit.

Accordingly, to provide investors and other financial statement users with greater visibility into the relative extent of participation of other participants in the audit, the reproposed amendments would allow disclosure of the other participants as a single number or by listing such persons and firms within the applicable range(s), beginning with narrower ranges—less-than-5% and 5% to less-than-10%—and then in wider ranges—10% to less-than-20%, 20% to less-than-30%, and so on up to a range of 90%-or-more. Ranges below 50% may contain multiple participants.

In situations in which the extent of participation is less-than-5%, individually for firms or in the aggregate for person from the same country, the auditor would not be required to disclose the names and locations of other accounting firms or the locations of other persons not employed by the auditor. However, the auditor would be required to group and disclose the aggregate percent of participation of the other accounting firms or other persons not employed by the auditor and provide the number of firms in the group titled "other firms" or the number of countries in the group titled "other persons not employed by our firm."

Shown below are examples of the application of these requirements.

a. Example of Application for Other Participating Accounting Firms

In the case of other participating accounting firms, the auditor considers other participating accounting firms individually to determine the appropriate disclosure. For

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[35/] The total hours in the most recent period's audit include hours attributable to the financial statement audit and, when applicable, the audit of internal control over financial reporting and reviews pursuant to AU sec. 722, and exclude hours attributable to the performance of the EQR and Appendix K review. The EQR and Appendix K review can be performed by an individual employed by the auditor or by an individual or a person outside the auditor's own firm. In either case, the reproposed amendments do not require these reviewers to be disclosed. Accordingly, hours attributable to the EQR and Appendix K review are excluded from the calculation of the total audit hours.

example, if there are four other accounting firms that participate in the audit— three whose individual extent of participation was 4% and one (ABC Audit Firm in Country A) whose individual extent of participation was 15%— the auditor's report would present the following:

Other Participants in the Audit and Their Extent of Participation

10% to less-than-20%

- ABC Audit Firm (Country A) [or alternatively, if a single number option is selected: 15%]

Other participants whose individual or aggregate extent of participation was less-than-5%:

- Three other firms, whose individual extent of participation was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of 10% to less-than-20% [or alternatively, if a single number option is selected: 12%].

In this example, the names and locations of the three other accounting firms are not disclosed because their individual extent of participation was each less than the 5% threshold.

b. Example of Application for Other Persons Not Employed by the Auditor

In the case of other persons not employed by the auditor, the auditor would group persons based on the country of headquarters' office location or residence to determine the appropriate disclosure. For example, if there are ten persons not employed by the auditor involved in the audit—two persons from Country A, three persons from Country B, two persons from Country C, and three persons from Country D—the auditor first groups the persons by country:

- In Country A, Person 1's individual extent of participation was 2% and Person 2's individual extent of participation was 7% equaling 9% of total audit hours performed by persons in Country A not employed by the auditor (included in the range of 5% to less-than-10% in the example below).

- In Country B, Person 1's individual extent of participation was 3%, Person 2's individual extent of participation was 4%, and Person 3's individual extent of participation was 4% equaling 11% of total audit hours performed by persons in Country B not employed by the auditor (included in the range of 10% to less-than-20% in the example below).

- In Country C, Person 1's individual extent of participation was 2% and Person 2's individual extent of participation was 2% equaling 4% of total audit hours performed by persons in Country C not employed by the auditor (included in the individually less than 5% category in the example below).

- In Country D, Person 1's individual extent of participation was 1%, Person 2's individual extent of participation was 2%, and Person 3's individual extent of participation was 1% equaling 4% of total audit hours performed by persons in Country D not employed by the auditor (included in the individually less than 5% category in the example below).

In this example, the auditor's report would present the following:

Other Participants in the Audit and Their Extent of Participation

10% to less-than-20%

- Persons in Country B not employed by our firm [or alternatively, if a single number option is selected: 11%]

5% to less-than-10%

- Persons in Country A not employed by our firm [or alternatively, if a single number option is selected: 9%]

Other participants whose individual or aggregate extent of participation was less than 5%:

- Other persons from two countries not employed by our firm, whose aggregate extent of participation by country was less than 5% of the total audit hours, participated in the audit. Their aggregate extent of participation was within the range of 5 to less-than-10% [or alternatively, if a single number option is selected: 8%].

In this example, the location and extent of participation for persons in Countries A and B are disclosed because the aggregate percent of participation is greater than the 5% threshold; however, for Countries C and D, only the total extent of participation is disclosed as the aggregate contribution of persons from Countries C and D was each less than 5% of the total audit hours.

3. Disclosure in Dual-Dated Auditor's Reports

The Board proposed that in instances in which an auditor's report is dual dated due to subsequent discovery of facts, the auditor's report include the information presented at the original issuance date and then separately disclose the incremental extent of participation from the original issuance date to the latest report date.

Commenters expressed mixed views on the originally proposed disclosure requirements in these circumstances. Some commenters supported separate disclosure of the incremental extent of participation when an auditor's report is dual dated. Other commenters did not believe that separate disclosure of the percentage of hours attributed to the work performed subsequent to the original report date would be useful to users of the auditor's report.

After considering the commenters' views, the originally proposed disclosure requirement for when an auditor's report is dual dated was modified. Specifically, the reproposed amendments would not require the auditor to disclose in the auditor's report separately the percentage of hours attributable to the work performed as of the original report date and the percentage of hours attributable to the work performed subsequent to the original report date. Instead, the reproposed amendments would require that the auditor disclose in the auditor's report the extent of participation as the total percentage of the hours attributable to the work performed by other participants in the audit as of the latest report date.

Pursuant to the Board's standards, an auditor's report may be dual dated at the original issuance (generally because of a subsequent event) or upon a subsequent reissuance (generally because of a financial statement restatement or a material subsequent event).[36/] The Board recognizes that, in situations in which an auditor's report is reissued and dual dated,[37/] the auditor would be required to recompute the extent of the other participants' participation and present the disclosure as of the latest

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[36/] See paragraphs .05 and .06 of AU sec. 530, *Dating of the Independent Auditor's Report*.

[37/] Based on the Board's staff analysis of auditors' reports filed in SEC annual (for example, Forms 10-K and 20-F) and amended annual (for example, Forms 10-K/A and 20-F/A) reporting forms for fiscal years 2011, 2010, and 2009, there were 15, 145, and 173 instances, respectively, in which the auditor's report was reissued and dual dated.

report date. However, in both situations the extent of participation would be disclosed as of the latest report date.

4. Disclosure in Reissued Auditor's Reports of Predecessor Auditors

In situations in which a predecessor auditor has been asked to reissue the auditor's report on the financial statements of a prior period, existing standards require the auditor to consider whether the auditor's report on those statements is still appropriate after certain required procedures are performed.[38/] If the predecessor auditor determines that the auditor's report is still appropriate and the auditor's report is reissued, the disclosure of other participants in the audit need not be repeated in that auditor's report. Since the disclosure of other participants in the audit is only required for the most recent period's audit, the reproposed amendments would not require the disclosure of the other participants in the audit in the reissued report of the predecessor auditor for prior years.

E. Disclosure Requirements in Situations in Which the Auditor Divides Responsibility for the Audit with Another Accounting Firm

In situations in which the auditor divides responsibility for the audit with another accounting firm, the Board originally proposed that the auditor's report require the auditor to disclose in the auditor's report the name of the referred-to accounting firm and the country of its headquarters' office location, which is not part of the existing requirements when dividing responsibility for an audit. Additionally, the originally proposed amendments to AU sec. 543 would have removed the existing requirement to obtain express permission of the referred-to accounting firm when disclosing the firm's name.[39/] The SEC rules already include a requirement that the auditor's report of a referred-to accounting firm should be filed with the SEC, so the name of the firm is already made public.[40/] The Board did not propose any changes to the existing requirements for disclosure of the magnitude of the portion of the financial statements audited by the referred-to accounting firm.[41/]

38/ See AU secs. 508.70-.73, which discuss the report of a predecessor auditor.

39/ See AU secs. 543.03 and .06-.09.

40/ See Rule 2-05 of Regulation S-X, 17 C.F.R. § 210.2-05.

41/ See AU sec. 543.07. Existing PCAOB standards require that the auditor disclose the magnitude of the portion of the financial statements audited by the referred-

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Number: 1	Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC	Subject: Highlight	Date: 3/13/2014 11:27:17 AM

Commenters had mixed views on this requirement. A few commenters supported the inclusion of the name and location of the referred-to accounting firms in the auditor's report. Other commenters believed that the name of the referred-to accounting firm in the auditor's report was unnecessary as the information is already public since the auditor's report of the referred-to accounting firm is required to be filed with the SEC. These commenters believed the disclosure would be redundant. Others who did not support the requirement for disclosure of other participants in the audit did not support this level of information in the auditor's report.

Further, commenters on this matter expressed mixed views on whether express permission should continue to be obtained from the referred-to accounting firm. A few commenters noted that obtaining permission for including the name is a common courtesy and should be retained. The remaining commenters supported the removal of the requirement and did not believe that it would pose any implementation challenges.

Some commenters expressed concern that the different metrics for disclosing the magnitude of the portion of the financial statements audited by the referred-to accounting firm (expressed in dollar amounts or percentages of total assets, total revenues, or other criteria) and the extent of participation of other participants in the audit (expressed as a percentage of total hours) may create confusion among users of the auditor's report. Others suggested that any confusion would be minimal and that investors would be able to navigate the information disclosed effectively, even with two different metrics.

Having considered comments on the originally proposed amendments, the Board is reproposing the requirements as originally proposed. The reproposed amendments to AU sec. 543 would require, as originally proposed, the name of the referred-to firm and the country of its headquarters' office location to be disclosed in the auditor's report. Also, as proposed, the reproposed amendments would remove the existing requirement in AU sec. 543 to obtain express permission of the referred-to firm when disclosing the firm's name. Including the name of the referred-to firm in the auditor's report on the consolidated financial statements makes it more readily available for investors and other financial statement users.

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to accounting firm by stating the dollar amount or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements audited by the referred-to accounting firm.

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Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:25:41 AM

Dear PCAOB Folks:

Congratulations.....

nice job...

well done....on this initial (redundant) first step.....

Respectfully yours,

Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:23:35 AM

Further, the reproposed amendments, like the originally proposed amendments, do not amend the existing requirements for disclosure of the magnitude of the portion of the financial statements audited by the referred-to firm. As discussed earlier, percentage of audit hours appears to be the most relevant and practical metric for disclosing the extent of participation of other participants in the audit.[42/] The existing metrics for disclosing referred-to firms—described in AU sec. 543—also appear to be the most appropriate for such disclosure.

[42/] Refer to Section II.C., Extent of Participation, *Disclosure Metric*, for further discussion of the rationale and requirement for using percentage of audit hours as the metric for disclosing extent of participation of other participants in the audit.

Page: 85

Number: 1 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Tuesday, March 25th, 2014 Date: 3/13/2014 11:22:07 AM

Plus or Minus a 'Fudge Factor' of 12.5 Per Cent......

which means such hours can actually be off by as much as 25%....

give or take a few, more or less...

kinda/sorta.....caveat, caveat and caveat......

By-the-Bye....did we mention the 500 Tons of Gold thats reportedly gone missing in main land China.....wow, 500 tons, that's alot isn't it.....?

Respectfully yours, Pw Carey, Senior IT Auditor (GRC), CISA, CISSP, Compliance Partners, LLC, Barrington, IL 60010 USA

Number: 2 Author: Pw_Carey_Senior IT GRC Auditor, (CISA, CISSP), Compliance Partners, LLC Subject: Highlight Date: 3/13/2014 11:17:22 AM

From: Bill Casey
To: Comments
Subject: PCAOB Rulemaking Docket Matter No 029
Date: Sunday, February 02, 2014 10:35:16 PM

I would like to submit the following comments to selected questions in section VII of your release No. 2103-009 (now docket matter No. 029):

VII. 1. (A) The requirements to disclose the name and information on the engagement partner will, over time, provide investors and other financial statement users with useful information and should result in improved audit reporting. As to how, please see your questions VII.3, VII.6 and VII.12. (B) The requirements to disclose information about other participants in the audit may be information overload and unnecessary. I would suggest that this requirement be held or deferred, and reconsidered at a much later date, after impact of increased disclosure requirements in (A) can be evaluated.

VII. 17. If (B) requirements to disclose information about other participants in the audit cannot be postponed, I would support a 10% or higher threshold as more appropriate. Additional information for transparancy should be balanced with investors and other financial statement users need for more concise, easier to read (less information overload) financial statements. footnote disclosures and auditors report thereon.

Reason for both comments:

I strongly believe that audit risk assessment and responsibility for auditor's report should rest and remain with the engagement partner and firm (no matter the organizational structure). I would support the alternate approach that would require engagement partner signature on the auditor's report. AICPA members in the United States and MSCPA members in Massachusetts (prior to rule changes in 1969 or 1970) reporting standards required individual (or engagement partner) CPA signature on all audit reports issued (firm signatures alone were not permitted). In those earlier years, (at least at the regional public accounting firm where I was first employed after college) the engagement partner reviewed draft financial statements and footnote disclosures on site at client headquarters with audit field staff prior to exit. This was an exit risk assessment review that often resulted in budget overruns on larger client accounts. If field staff could not produce workpaper support to give engagement partner comfort in this field review process, additional audit field work was required. The additional work (budget overrun) resulted in either 1) on the job training for audit field staff (don't let it happen again-budget overrun not fully billable) or b) a scheduled or rescheduled exit meeting with client executive (CFO, CEO or both) in which risk issues were seriously discussed, draft financial statements and footnote disclosures were often modified, and budget overrun fully billed. This process was then followed by meeting with audit committee or board chairman (then), with hand delivered audit report and long form management letter on internal controls before audit report was released for printer use in annual reports or SEC filings. While we were embracing the concept of statistical sampling in field audit work, field audit staff quickly learned not to ignore risk concentrations and use sampling for the remainder. I would support this back to basics approach. US. accounting and auditing standards should lead not follow other countries on this important issue. The sooner, our CPA profession assumes risk assessment and report responsibility for all of the profession, whether individual practioners, regional firms, national or international firms, the sooner financial reporting quality and audit report reliance by investors and other users will improve.

The growth in management consulting practice revenues, especially at large national and international firms with large concentrations of public companies as audit clients and the maximum allowable thresholds for such management consulting fees needs, in my opinion, more oversight monitoring attention and continued transparancy reporting. I strongly feel that continued monitoring of independence issues, direct cross selling issues (audit referrals to management services), indirect (soft) cross selling , as may be included in CPE programs, etc. should continue to receive your oversight attention and require transparancy reporting rather than the miniscule other participants information disclosures.

Thank you for the opportunity to submit these brief comments.

Respectfully submitted

William F. Casey, Jr., retired CPA
PO Box 136
Atkinson, NH 03811-0136
617 960 6045
wcasey2@myfairpoint.net

From: wcasey2@myfairpoint.net
To: Standards
Subject: PCAOB Contact Form Submission
Date: Saturday, February 01, 2014 3:46:12 PM

This email is from a submission on the PCAOB Public Web Site contact form.==

From: William Casey

Daytime Phone Number: 6179606045

Comments: Re: Comment in support of the indentity of the engagement partner and other disclosures in public company audit reports.
In 1966, when I first began my career in public accounting, the engagement partner signed his (her) name to the audit report-firm name alone was not permitted. On site review by engagement partner of draft financial statements and disclosures (on site risk assessment review) was standard practice. Some budget overruns usually occurred as audit team members sometimes had to revisit issues or depts to provide additional workpaper comfort for engagement partner. An on site meeting with client executive (usually chief financial officer) might result for further engagement partner comfort on his/her remaining risks concerns-additional billable audit work might then result. A return to this basic risk responsibility should improve audit report quality and reliance in the future.
William Casey, CPA retired

These comments were submitted to:
Standard-related Inquiries

CENTER FOR AUDIT QUALITY
Serving Investors, Public Company Auditors & the Markets

February 3, 2014

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 029: Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants.

The CAQ welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (the Proposal). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

Similar to views previously expressed on this topic,[1] the CAQ supports the PCAOB's efforts to be responsive to calls from financial statement users for further transparency in the audit. However, we do not believe the identification of the engagement partner will provide meaningful information to financial statement users or result in incremental improvements in audit quality, and could result in many practical challenges and liability considerations, particularly if such identification is included in the auditor's report. Should the Board continue to move forward with this aspect of the Proposal, we believe some of these challenges would be mitigated if identification of the engagement partner was reflected within the Form 2 filing, with possible submission of this information on a more timely basis, or in the audit committee report (or elsewhere in the proxy statement), as opposed to including the information in the auditor's report. However, regardless of where this information might be provided, we believe there are unintended consequences associated with identifying the engagement partner, and we

[1] See the CAQ's comment letters to the PCAOB dated September 11, 2009 and January 9, 2012.

encourage the PCAOB to consider these consequences in evaluating whether to move forward with this aspect of the Proposal.

The Proposal also contemplates requiring disclosure within the auditor's report of information about certain other participants, including other independent public accounting firms. The CAQ supports providing additional information to financial statement users to enhance their understanding of the auditor's role and responsibilities, including the disclosure of information about certain other participants in the audit. However, we believe the proposed approach of including this information in the auditor's report carries with it practical challenges and liability considerations, predominately related to obtaining and providing consents. Should the Board require disclosure of information about certain other participants in the audit, we believe it is more appropriate for this information to be provided within Form 2 or in the audit committee report (or elsewhere in the proxy statement), as opposed to including the information in the auditor's report. We believe these alternatives would provide financial statement users with accessible information on certain other participants involved in the audit, while mitigating many of the practical challenges and liability considerations associated with providing this information in the auditor's report.

In this letter, we set forth our views regarding potential practical challenges and liability considerations associated with engagement partner identification and providing information on certain other participants in the audit within the auditor's report and suggest, for the Board's consideration, alternative approaches for disclosure of this information that would mitigate many of these concerns. We also expand upon the unintended consequences of identifying the engagement partner, regardless of the location. We have organized our observations as follows:

- Practical Challenges in Obtaining Consents
- Liability Considerations
- Alternative Approaches to the Auditor's Report
- Unintended Consequences of Identifying the Engagement Partner
- Additional Suggested Enhancements to the Disclosure of Certain Other Participants
- Scope of the Proposal

Practical Challenges in Obtaining Consents

The Proposal states that "the Board has assumed that engagement partners and participating accounting firms named in an auditor's report would have to consent…to the inclusion of their names in…an auditor's report filed with, or included by reference in, another document filed under the Securities Act with the Commission."[2] We appreciate the Board providing its understanding regarding the need for consents to be provided by engagement partners and certain other participants named in the auditor's report. However, we believe there are numerous practical challenges that could occur in providing such consents, and have expanded upon many of these challenges below.

Challenges in Obtaining Engagement Partner Consents

There are instances where obtaining a consent from an engagement partner would be challenging, particularly in situations where audit reports need to be reissued and the engagement partner named in the original auditor's report is no longer associated with the audit firm (e.g., resigned or retired). In these situations, there may be delays in obtaining a consent from the original signing engagement partner. This could lead to delays in the issuer's ability to timely file a registration statement, and affect the completion of capital market transactions. Further, there may be instances where a consent cannot be obtained. For example, a former

[2] Pages 21-22, the Proposal.

engagement partner, no longer associated with the audit firm that issued the auditor's report, may be unable or unwilling to issue a consent. In these instances, the inability to obtain a consent could have implications to the issuer filing a registration statement, and it is unclear what recourse, if any, the issuer would have to ensure the registration statement is filed timely and considered complete.

Additionally, a former engagement partner who is no longer associated with the audit firm that issued the auditor's report may be more cautious (given the associated personal liability) when deciding whether to provide a consent, related to a subsequent registration statement, for an issuer for which he or she is no longer involved. If he or she does agree to provide a consent, he or she would likely want to perform certain update procedures.[3] However, it is unclear whether such individuals would be allowed to perform certain procedures, due to concerns over the sharing of confidential information. For example, a former engagement partner might become a financial officer of a company that is a competitor of an issuer seeking his or her consent for inclusion in a registration statement. Similarly, an engagement partner may have changed audit firms and a consent is required for an issuer the partner served as the lead engagement partner while at the previous audit firm, and there may be concerns with sharing information between firms. Under these scenarios, the former engagement partner may not be allowed access to the draft registration statement or other related documents, and if precluded from performing the update procedures that he or she believes are necessary, may not be willing to provide a consent.

There could also be implications on a partner's ability to perform procedures on an engagement in which a consent is requested, when the partner is in a rotation 'time-out' period. For instance, in situations where a partner has rotated off an engagement after the five-year service period, and a registration statement is filed prior to issuance of the subsequent year's auditor's report, a consent would be required from the former engagement partner. As the former engagement partner is subject to liability under Section 11 of the Securities Act of 1933 (Section 11), he or she would likely perform or direct the performance of certain procedures, including reviewing the draft registration statement and other update procedures, in order to demonstrate that he or she has a reasonable basis to sign the consent. However, it is unclear whether the Securities and Exchange Commission's (SEC) independence rules would limit the former engagement partner's performance of such procedures during his or her rotation 'time-out' period. In cases where the audit firm issues a consent, these procedures could be performed by the engagement team under the leadership of the new or incoming engagement partner. However, if the former engagement partner is identified in the audit report, he or she will also need to issue a consent. We do not believe it would be appropriate to expect the former engagement partner to provide a consent in connection with a filing when he or she had no opportunity to perform (or direct the performance of) procedures that he or she might consider necessary, under the circumstances.

Challenges in Obtaining Consents from Certain Independent Public Accounting Firms

Similar to the challenges discussed above with respect to obtaining consents from the engagement partner, there could be circumstances that prevent or hinder the ability to obtain timely consents from certain other independent public accounting firms that participated in the audit. For instance, other audit firms identified within the auditor's report (i.e., a participating audit firm), regardless of the level of its involvement in the audit, will most likely want to review the filing and perform additional (or update) procedures before providing a consent.[4] This could delay the process of filing a registration statement, particularly if there are a number of audit firms involved in the audit that are required to provide consents.

[3] PCAOB auditing standards do not address what procedures are necessary, in instances where an engagement partner is providing a consent for an issuer for which he or she is no longer involved.

[4] PCAOB auditing standards do not address what procedures are necessary, in instances where a consent is required from a participating audit firm, notwithstanding the fact that it only performed limited audit procedures at the direction of the principal auditor (i.e., has not completed a standalone audit or issued an auditor's report).

A participating audit firm's responsibility is often limited to a specific subsidiary or area of focus. However, if a consent is required from the participating audit firm, and given the associated increase in Section 11 liability, it is likely that it would perform additional procedures, and may also seek a broader understanding of the registration statement and any related issues, including inquiring about perceived concerns in areas in which it did not have direct responsibility.

Consents obtained from participating audit firms would also need to be dated concurrently with the filing, which could lead to logistical challenges in coordinating with multiple parties to complete the necessary procedures and provide the consents at the same time. Further, certain other independent public accounting firms, including network firms, may be reluctant to participate in issuer audits due to the additional liability that may arise from having to consent to the inclusion of the audit firm's name in the auditor's report. This could particularly impact smaller firms, who are not part of a global network and may need to use non-network firms to conduct audit work.

Liability Considerations

The Proposal identifies a number of liability considerations, primarily related to Section 11, Section 10(b) of the Securities Exchange Act of 1934 (Section 10(b)) and Rule 10b-5 promulgated under it. The CAQ believes that increasing the risk of litigation exposure is neither in the spirit of, nor necessary to, enhancing transparency in the audit, particularly when there are alternative mechanisms that can achieve the increased transparency without raising the liability concerns, as further described in Appendix A. We believe our proposed alternative approaches may help mitigate the potential significant additional liability exposure inherent in the Proposal, while at the same time providing the proposed information to financial statement users, and we urge the PCAOB to consider these alternatives and not to proceed on the assumption that these liability concerns are limited, incidental, or manageable.

Alternative Approaches to the Auditor's Report

As previously noted, while the CAQ supports providing additional information to financial statement users to enhance their understanding of the auditor's role and responsibilities, including providing information on certain other participants in the audit, we do not believe the identification of the engagement partner will result in any incremental improvements in audit quality or provide meaningful information to financial statement users. However, should the Board move forward with the Proposal, we encourage the Board to consider the alternative approaches presented below, which we believe offer reporting mechanisms that would provide the information addressed within the Proposal, while mitigating many of the practical challenges and litigation concerns of providing this information in the auditor's report.

Form 2 Reporting

The CAQ continues to believe reporting in Form 2 is a more appropriate alternative to reporting in the auditor's report,[5] as it provides a convenient and accessible form of disclosure for financial statement users that is centralized in one location (i.e., the PCAOB's website). Most importantly, reporting in Form 2 would alleviate the requirement for obtaining consents from the engagement partner and certain other participants in the audits, who would otherwise be named in the auditor's report under the Proposal, and therefore, would mitigate many of the practical challenges and liability concerns noted above.

[5] Page 5, CAQ comment letter to the PCAOB dated January 9, 2012.

We appreciate the Board's concerns outlined in the Proposal regarding the use of Form 2 as an alternative reporting mechanism to the auditor's report. However, we believe a number of these concerns can be addressed, while meeting the Board's objective of providing financial statement users with timely useful information:

- Lack of Timely Information

The Board expressed concerns that since Form 2 must be filed no later than June 30 of each year, and covers the preceding 12-month period from April 1 to March 31, the disclosure of information to financial statement users would be delayed from three to fifteen months.[6] We believe this concern could be addressed by the Board amending the filing instructions for Form 2 to require audit firms to file specific Form 2 data (e.g., identification of engagement partner and certain other audit participant information) on a periodic basis, or alternatively, the Board could create a new PCAOB form with the applicable data to also be filed on a periodic basis. An additional benefit to providing the information outside the auditor's report, and allowing the information to be provided after the completion of the audit, would be that the auditor would not be assembling this information during the completion stage of the audit.

- Costs to Audit Firms

The Board expressed concerns regarding the additional costs accounting firms would incur to develop systems to compile and report the proposed information (e.g., engagement partner name and information related to certain other participants).[7] Regardless of the location of this information, we believe audit firms would incur initial costs to develop processes to gather the information and annual costs associated with ongoing maintenance efforts, and it is unclear how cost concerns could inhibit the consideration of Form 2 as an alternative. Further, audit firms already have established processes in place to gather information for Form 2 filings and annual inspection requests, which would limit the potential incremental costs and be less of a burden to audit firms, as compared to the overall costs associated with the process of obtaining consents if such information is included in the auditor's report.

- Convenience of Location

The Board suggested that Form 2 reporting would make it more difficult for financial statement users to locate the relevant information (e.g., engagement partner name and information related to certain other participants in the audit), because they would have to search for it in the midst of other unrelated information in Form 2, particularly for users who are only interested in the name of the engagement partner for a particular audit, rather than an aggregation of all of the firm's engagement partners.[8] However, we believe that Form 2 provides an accessible form of reporting, centralized in one location that would allow financial statement users to obtain information from one source, as opposed to searching in multiple filings. Further, the PCAOB's Form 2 provides a consistent data format that could allow for the development of additional systems (e.g., searchable databases) to make the information addressed in this Proposal more easily accessible to financial statement users.

Audit Committee or Proxy Statement Reporting

Audit committees play a critical role in the governance of public companies and in the integrity of the overall external financial reporting system. Under the Sarbanes-Oxley Act of 2002, audit committees of public

[6] Page 33, the Proposal.
[7] Ibid.
[8] Pages 33-34, the Proposal.

companies are broadly charged with overseeing a company's financial reporting process and for hiring, compensating, and overseeing the work of the external auditor.

Another potential alternative to reporting in the auditor's report is for the identification of the engagement partner and information on certain other participants involved in the audit to be provided in the audit committee report (or elsewhere within the proxy statement). For instance, if reported within the audit committee report, the audit committee could expand on the information and provide additional context related to their oversight responsibilities of the external auditor. Further, as this reporting would not require consents from the engagement partner and certain other participants in the audit, the consent concerns discussed above would also be mitigated. Finally, reporting in the audit committee report (or elsewhere within the proxy statement) would provide financial statement users, particularly shareholders, with information located within the central document required to be provided by issuers to solicit shareholder votes. This approach seems better aligned with the Board's views, particularly in cases where shareholders are asked to vote to ratify the company's choice of registered firm as its auditor.[9]

We understand the PCAOB does not have the authority to require the disclosure of such information within the audit committee report (or elsewhere within the proxy statement), as these disclosure requirements are governed by the SEC. However, if the Board continues to move forward with the Proposal, we encourage the PCAOB to work with the SEC to consider whether it is more appropriate for this information to reside within the proxy statement, either in the audit committee report or elsewhere.

Unintended Consequences of Identifying the Engagement Partner

The CAQ believes that, regardless of the location, there are unintended consequences of identifying the engagement partner that could result in financial statement users reaching inappropriate conclusions about the engagement partner, the audit firm, or the quality of the audit. For example, the execution of an effective audit involves the efforts of many individuals and is dependent on a system of quality controls that is in accordance with the PCAOB's Quality Control Standards. Audit firms have historically signed auditor's reports based upon these collective efforts, and we are concerned that the identification of the engagement partner (and perhaps the undue emphasis placed on such) will send a message that may be inconsistent with how financial statement users should view and evaluate the execution of an audit.

Financial statement users may also draw inappropriate inferences about the expertise and experience of the engagement partner without proper consideration of the important contributions of other members of the engagement team or consideration of the engagement partner's experience gained outside the public company audit environment that would not be subject to disclosure. Similar concerns may exist for first time signing partners on audits of issuers, as financial statement users would not have visibility into the audits of other issuers (or non-issuers) with which these engagement partners have been involved.

Additional Suggested Enhancements to the Disclosure of Certain Other Participants

As it relates to the use of audit hours as a measure to determine which participating audit firms must be named in the auditor's report, we appreciate the Board's inclusion of a range option, as a range approach provides transparency, but reduces the administrative burden during the critical stage of audit completion that could be imposed on the audit engagement team by requiring precise calculations for each audit participant and related reporting of certain participation rates. However, despite the inclusion of a range option, we believe there are possible implementation challenges associated with the use of audit hours as a metric, including accounting for audit hours incurred performing multi-purpose testing (e.g., statutory audits of subsidiaries performed abroad where the same work is also utilized for the consolidated issuer audit), and the

[9] Pages 3 and A3-3, the Proposal.

timing of when the calculation of participation percentages for certain audit participants would be performed during the audit completion stage. Although the alternative approaches discussed above would alleviate some of these concerns, by allowing the information to be assembled after the completion of the audit, we believe the profession would benefit from the PCAOB providing additional guidance on these implementation challenges.

Scope of the Proposal

Emerging Growth Companies (EGC)

The CAQ believes that the proposed amendments related to the disclosure of information about certain other participants in the audit (and the identification of the engagement partner, if the PCAOB decides to move forward with that aspect of the Proposal) should be applicable to the audits of EGCs. We believe EGCs exhibit characteristics similar to other public companies and financial statement users would benefit from similar reporting requirements.

Brokers and Dealers

In our view, non-issuer brokers and dealers should be excluded from the proposed amendments related to the disclosure of information about certain other participants in the audit (and the identification of the engagement partner, if the PCAOB decides to move forward with that aspect of the Proposal). As noted within the Proposal, the ownership of brokers and dealers is primarily closely held (per the PCAOB's Office of Research and Analysis, approximately 75% of the brokers and dealers have five or fewer direct owners), and the direct owners are generally part of the entity's management.[10] Accordingly, we believe that requiring the disclosure of information about certain other participants (and the identification of the engagement partner, if the PCAOB decides to move forward with that aspect of the Proposal) would not provide financial statement users of non-issuer brokers and dealers with additional relevant information to justify the incremental cost.

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The CAQ acknowledges the Board's efforts to further transparency in the audit through this Proposal. However, we do not believe the identification of the engagement partner will provide meaningful information to financial statement users or result in incremental improvements in audit quality. Further, we believe the unintended consequences and liability implications associated with identifying the engagement partner, most importantly under Section 11, must be carefully considered. Should the Board move forward with this aspect of the Proposal, we believe engagement partner identification in either Form 2 or the audit committee report (or elsewhere within the proxy statement), rather than the auditor's report, would be a more appropriate approach.

We support providing additional information on certain other participants involved in the audit. However, we do not believe this information should reside in the auditor's report, due to the practical challenges and liability considerations noted above. Should the Board move forward with the proposed amendments related to the disclosure of information about certain other participants in the audit, we encourage the Board to consider our suggested alternative approaches that would provide enhanced transparency, while mitigating many of the practical challenges and litigation considerations.

[10] Pages 26-27, the Proposal.

The CAQ appreciates the opportunity to comment on the Proposal and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have regarding the views expressed in this letter.

Sincerely,

Cynthia M. Fornelli

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc:

PCAOB
James R. Doty, Chairman
Lewis H. Ferguson, Board Member
Jeanette M. Franzel, Board Member
Jay D. Hanson, Board Member
Steven B. Harris, Board Member
Martin F. Baumann, Chief Auditor

SEC
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Kara M. Stein, Commissioner
Paul A. Beswick, Chief Accountant
Brian T. Croteau, Deputy Chief Accountant
Julie Erhardt, Deputy Chief Accountant
Daniel Murdock, Deputy Chief Accountant

IAASB
Prof. Arnold Schilder, Chairman
James Gunn, Technical Director

Appendix A – Liability Considerations

Note: This appendix presents the CAQ's views regarding the liability risks associated with the Proposal.

The Proposal states, with respect to identification of both the engagement partner and certain other participants in the audit, a number of liability considerations, primarily related to Section 11 of the Securities Act of 1933 (Section 11), Section 10(b) of the Securities Exchange Act of 1934 (Section 10(b)) and Rule 10b-5, promulgated under it. The Board further states that any possible increase in liability exposure for a named engagement partner or a participating audit firm, in connection with the issuance of a consent, would be limited, and that the potential risk of such an increase is justified by the potential benefits of greater transparency to investors and other financial statement users.[11]

We respectfully suggest, however, that the liability considerations are more significant than that acknowledged by the PCAOB, particularly as they relate to Section 11. As discussed more fully below, although it is not possible to quantify the magnitude of the incremental risk, we believe the Proposal will lead to an increase in litigation against named engagement partners and participating audit firms. However, this additional liability exposure could be avoided, or at least substantially mitigated, if the alternative disclosure approaches discussed above were adopted. Accordingly, we urge the PCAOB to consider these suggested alternatives and not proceed with an assumption that the liability concerns are limited, incidental, or manageable.

Section 11

Liability under Section 11 has broad impact, because any public offering of securities in the United States, including initial public offerings and bond offerings, must be conducted by means of a registration statement, and because of the requirement for a consent with respect to a post-effective amendment to a shelf registration (e.g., a Form 10-K that through incorporation by reference becomes part of the registration statement). Unlike Section 10(b), Section 11 does not require a plaintiff to prove causation or scienter. Generally, a Section 11 claim may be viable as long as the plaintiff can show that (i) he or she purchased securities pursuant to a registration statement, (ii) the registration statement contained a material misstatement or omission, (iii) the defendants are covered by the statute, and (iv) the complaint was timely. Section 11 balances this broad liability by limiting the scope of those who may be sued to a clearly-defined class of defendants, including experts such as accountants who "prepare" or "certify" portions of the registration statement.

The PCAOB appears to assume that, under the Proposal, Section 11 liability would substantially broaden the class of defendants to include the engagement partner and other participants who (under the Proposal) will be named in the auditor's report. While it could be argued that an engagement partner and the other named participating audit firms should not fall within the group for which consents would be required, few issuers are likely to risk the rejection of a filing on this basis. The necessary assumption in considering the Proposal is that Section 11 would, under the Proposal, be extended to engagement partners and participating audit firms that are named in the auditor's report, and that litigation against engagement partners and such firms would occur.[12]

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[11] Page 21, the Proposal.

[12] Notwithstanding the assumption made in the Proposal, the conclusion that consents of engagement partners and other participants will be required is not obvious. Neither individual engagement partners nor participating audit firms "prepare" or "certify" the audit report that is included in the registration statement; as the Proposal observes, "[t]he auditor's report would continue to be signed only by the firm." In this regard, we note that the Proposal misquotes the definition of "certified" in the SEC rules, stating that it applies to anyone who "examined *or* reported upon" the information, when the rule says certified means "examined *and* reported upon" 17 CFR § 230.405 (emphasis added).

While the Proposal contends that Section 11 lawsuits against accounting firms are "relatively rare," that observation understates their impact and severity. Section 11 lawsuits carry greater risk, because of the lighter burden for plaintiffs, and involve claims for significant dollar amounts.[13] Section 11 is the most draconian liability provision in the federal securities laws, and the CAQ believes that the potential Section 11 liability is greater than that acknowledged by the PCAOB in the Proposal.

Section 10(b) and Rule 10b-5

The Proposal notes that engagement partners and other participants in the audit could become liable under Section 10(b) and Rule 10b-5 for materially untrue statements deemed to be made by them in the auditor's report.[14] Section 10(b) is a general federal antifraud provision, applicable to all registered and unregistered securities transactions. The Proposal also suggests that participants' risk will be limited, due to the Supreme Court's decision in *Janus Capital Group, Inc. v. First Derivative Traders*, 131 S. Ct. 2296, 2302 (2011). The Court in *Janus* limited Section 10(b) liability to the "maker" of the fraudulent statement. If the Proposal is adopted, persons named in the auditor's report will argue that they are not "makers" of the statements in the report. While the CAQ believes that this is the better view, there will certainly be litigation, and resulting uncertainty, over that point if engagement partners and other participating audit firms are named in the auditor's report and consents are required.

State Laws

The CAQ believes that the legal implications under state law of naming individual engagement partners and participating audit firms are also an important consideration. State law negligence and fraud claims are often asserted against audit firms by, among others, litigation or bankruptcy trustees or receivers. Individual engagement partners are not typically named as defendants in such lawsuits, but the identification of the engagement partner in the auditor's report may change that. For instance, a state court may reach the conclusion that an engagement partner or other participating audit firm named in the auditor's report is liable under the state's laws. Additionally, unlike federal securities laws, a number of states' blue sky laws recognize causes of action by a holder of securities who claims to have relied on false statements. Further, while there is no private right of action for aiding and abetting a securities violation under federal law, there is such a right of action in many states. The consent filing requirement may also subject named foreign participants to jurisdiction in U.S. courts that would otherwise not exist. Foreign participants usually do not perform any significant audit activities within the United States, and the courts may find that there are not sufficient grounds for personal jurisdictional over these participants.[15] The filing of a consent with the SEC, however, could vitiate that argument, even where there is no increased activity in the United States by the foreign participant. As a result, even without reference to ultimate liability, identification of the engagement partner and participating audit firms could increase the number of state law claims brought against such partners and firms.

Increase in Litigation Costs

The Proposal states that the impact of a written consent likely would be minimal even if it leads to the naming of numerous additional defendants, on the grounds that the liability of the additional parties is "coextensive" with that of the firm.[16] Aside from the increased liability risks, this does not appear to consider the potential

[13] See generally WorldCom, Inc. Securities Litigation, 346 F. Supp. 2d 628 (S.D.N.Y. 2004).
[14] Page 24, the Proposal.
[15] See, e.g., CRT Investments, Ltd. v. BDO Seidman, LLP, 2011 WL 2225050 (N.Y. App. Div. June 9, 2011) (applying New York long-arm statute). See generally, New York Court Did Not Have Personal Jurisdiction Over Cayman Islands Accounting Firm That Audited Cayman Islands Feeder Fund for New York Fund, 36 Professional Liability Report art. 1 (July 2011). A jurisdictional issue might also arise in Section 10(b) lawsuits.
[16] Page 22, the Proposal.

increase in litigation costs that would result if the Proposal is adopted. For instance, adding defendants is likely to increase the issues in litigation and the number of counsel involved (e.g., separate counsel for the engagement partner and each participating audit firm that is named); lawsuits might also be brought in multiple jurisdictions, thereby further complicating matters. Additionally, although the Proposal states that liability would only attach to statements, "associated, in some way, with their own audit work,"[17] it could be challenging to determine what financial statement information each named participant might have "prepared" or "certified." Further, adding the engagement partner and participating audit firms to the lawsuit will almost certainly change litigation dynamics in ways that are adverse to audit firms and that have nothing to do with the merits or substance of the claims at issue. For example, a plaintiff can seek a settlement with one defendant in exchange for that defendant's assistance in pursuing the lawsuit against remaining defendants. With multiple defendants this could happen more frequently, especially when individuals can be named as defendants and pursued for exposures that could be personally catastrophic and that are today faced only by the audit firm. This would further increase potential liability or settlement costs.

The Proposal also suggests that, through indemnification, the firm may satisfy an adverse judgment against an engagement partner, stating, "… in most cases the accounting firm will have greater resources to satisfy a judgment than will any individual partner."[18] The CAQ believes that indemnification of an engagement partner by an audit firm would be appropriate and valid. But as the Proposal mentions in a footnote, the SEC has taken the position in other circumstances that indemnification against Securities Act liability is unenforceable.[19] The SEC's positions in this area have generally been in the context of indemnification by issuers of their directors and officers or underwriters, and the issue, to our knowledge, has not arisen in the context of indemnification by an accounting firm of its engagement partners.[20] Some courts have concluded, as to underwriters, that they should not be entitled to indemnity because the public depends on the work that they do.[21]

The question about enforceability of an indemnity is another potential issue under the Proposal that could be easily avoided by taking an alternative approach to achieving the transparency objective. Moreover, even a valid indemnity will provide little comfort to the defendant engagement partner, if the audit firm is not financially capable of honoring that indemnity. Even if (as one would hope) this would rarely happen, the mere possibility, coupled with the crippling liability the engagement partner would then likely have to face on his or her own, may well have consequences for how audit firms function, including the willingness to serve as engagement partners on issuers.

The CAQ believes that the reasons the Proposal gives for assuming that "the costs imposed by a consent requirement likely would be relatively low"[22] may not contemplate all of the factors discussed above, and the information called for in the Proposal could be provided without risking an extension of liability by making these disclosures in a location other than the auditor's report.

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[17] Page 23, the Proposal.
[18] Page 22, the Proposal.
[19] Footnote 50, the Proposal.
[20] See No-action letter, PriceWaterhouse LLP (Oct. 3, 1995).
[21] See, e.g., Eichenholtz v. Brennan, 52 F.3d 478, 485 (1995); Laventhol, Krekstein, Horwath & Horwath v. Horwitch, 637 F.2d 672, 676 (1980).
[22] Page 22, the Proposal.

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March 13, 2014

PCAOB
Office of the Secretary
1666 K Street N.W.
Washington, D.C. 20006-2803

Reference: PCAOB Rulemaking Docket Matter No. 029, *Improving Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC"),[2] appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) reproposed amendments to provide disclosure in the auditor's report of certain participants in the audit.

CFA Institute is comprised of more than 100,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

GENERAL COMMENTS

The PCAOB reproposal seeks input on a number of topics in the form of 25 questions regarding the usefulness of the information to the stakeholders, added costs, specific effects on engagement quality, liability concerns, etc. Some of these questions seek quantifiable evidence to support the proposed amendments. However, it is our belief, and that of others who have been consistently engaged in this debate, that the essence of why the disclosures are beneficial is principally the behavioral change that should result. We believe that those who strongly oppose these amendments on the grounds of increased auditor liability, additional audit costs and other reasons are diverting attention from this behavioral aspect. We and other stakeholders contend that disclosing the engagement partner and other participants in the audit is the right thing to do to enhance personal accountability and therefore improve audit quality.

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1 With offices in Charlottesville, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 116,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 137 countries, of whom more than 108,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 138 member societies in 60 countries and territories.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

As we wrote in our letter to the PCAOB on January 23, 2012:

The audit profession has a public perception problem, most notably in the eyes of investors, as a result of well-publicized audit failures and ongoing concerns regarding auditors' role in firms affected by the financial crisis. Substantial surprise losses, frauds, and the lack of transparency have diluted investor confidence in the independent audit in recent years and investors increasingly question auditor independence, objectivity and professional skepticism. Bold actions have been proposed and need to be taken by the PCAOB, ideally with the support of the audit profession, to restore confidence in the independent audit. Auditors should lead the effort by urging the PCAOB to make reasonable and necessary changes to improve the quality of audits and the public's perception of their quality. Leading the effort rather than resisting reasonable proposals would send a strong signal to the user community that the audit profession recognizes the problem and wants to play a constructive role in a comprehensive solution.

We are encouraged by statements from certain PCAOB members who also believe strongly that disclosure will strengthen personal accountability lead to enhanced audit quality.

In the **Appendix** to this letter we offer a number of strong investor focused views on why the disclosure of the engagement partner is considered appropriate and necessary. These views are excerpted from recent PCAOB speeches and public meetings. These observations and statements coming from highly respected individuals and investor organizations should direct the PCAOB to conclude that these measures are simply the right and reasonable thing to do.

We are also very encouraged by the February 3, 2014 comment letter (#20) to the PCAOB from the United States Senate, signed by Senators Tom Coburn, M.D. and Carl Levin. Their letter strongly supports the proposed changes and provides well reasoned arguments in favor of the proposed disclosures. Of particular significance are the following two points from their letter:

Since the goal of the PCAOB's work is to improve audit quality, rather than shield individual auditors from legal liability, it is troubling that the Board has focused so much of its analysis on liability concerns and has based its decision on whether to require signatures in large part on that issue. Its decision is also troubling since the 2013 proposal seems to acknowledge that requiring auditor signatures would create stronger incentives for audit quality.

And:

In addition, professions such as public accounting have long nurtured trust and respect by placing the reputation of their senior professionals on the line in support of their work. An audit report that carries the personal signature of a financial professional would not only strengthen audit quality, transparency, and accountability, but also help restore the personal responsibility critical to a trustworthy and respected accounting profession.

To conclude in favor of the matters in the reproposal would be consistent with the PCAOB's mission of protecting investors' interest.

SPECIFIC COMMENTS

CFA Institute Key Comments on the Reproposal
CFA Institute strongly supports the amendments reproposed by the PCAOB that would improve the transparency of public company audits. Our support for these measures was previously articulated in our January 23, 2012 letter.

We summarize our views as follows:

Disclosure of Engagement Partner& Engagement Quality Control Review Partner
CFA Institute supports the efforts of the PCAOB to improve the integrity and transparency of the audit of financial reports. Improvements in auditing standards are essential to restoring and maintaining confidence in the financial statements used by investors to make capital allocation decisions. We strongly support the proposed rule to require disclosure of the engagement partner.

We believe that disclosure of the engagement partner should be defined as the individual with the primary responsibility for the audit which distinguishes him or her from the client service partner who may exert influence regarding technical audit matters to preserve client relationships. We believe that disclosure of the engagement partner will strengthen that partner's ability to prevent pressures from others within the audit firm who may otherwise inappropriately influence the outcome of key audit related decisions.

We also believe that the engagement quality control review partner (i.e., second partner review) should be disclosed in addition to the engagement partner. The quality control review is an essential component of ensuring the integrity of the issued financial statements. This is especially important given the December 6, 2013 issuance of the PCAOB report: *Observations Related to the Implementation of the Auditing Standard on Engagement Quality Review* which highlighted significant audit deficiencies which should have been identified by the engagement quality control review partner.

The report noted that:

> *In a number of the engagements, including approximately 39 percent of the 111 audits of seven large domestic firms in which the Inspections staff identified that the audit opinion was insufficiently supported, inspections staff concluded that the audit deficiency should have been identified by the engagement quality reviewer.*

Disclosing the engagement partner and the engagement quality control review partner as jointly responsible for the audit will elevate their personal accountability and further strengthen the quality of the audit. This disclosure should be no different from the entity's management associated with the financial statements (i.e., CEO, CFO, etc.) who sign in accordance with the requirements of Sarbanes-Oxley.

Disclosure of Other Participants in the Audit
We believe that disclosure should be required when other auditors are responsible for subsidiaries accounting for more than 10% of gross assets, equity, revenue, or net income. Required disclosure should include the name and location of the subsidiary and the name of the auditor. Separate disclosure should be required for each case meeting the significance test.

We believe that these disclosures are necessary to make clear to investors which audit firm (or firms) has responsibility for the audit of the financial statements.

Disclosure Should Reside on the Face of the Audit Opinion
We believe that the disclosure of the engagement partner, the quality control review partner and the other participants in the audit should reside in the audit opinion-not solely in some other filing. Accessibility of the information is a key quality control factor and investors and others should not be required to dig elsewhere to find the information. Opponents to disclosing the information on the face of the auditor's report often suggest that the PCAOB Annual Form 2 filing and/or the audit committee report is more appropriate and a convenient means of accessing the information. However, searching for the information on Form 2 requires multiple time consuming steps.

CLOSING REMARKS

In our opinion, the reproposal should be unanimously approved by the PCAOB given certain public comments made by the PCAOB Board and Staff and the widespread investor support. However, we remain cautious that opponents will persuade the PCAOB to allow this disclosure to be placed in an obscure and opaque regulatory filing. For the PCAOB to claim full success on this matter the disclosure should be transparent and easily accessible by placing the information directly in the auditor's report.

We thank the PCAOB for the opportunity to express our views on this proposal. If the PCAOB has questions or seek furthers elaboration of our views, please contact Matthew M. Waldron by phone at +1.212.705.1733, or by e-mail at matthew.waldron@cfainstitute.org.

Sincerely,

/s/Kurt N. Schacht
Kurt N. Schacht, JD, CFA
Managing Director
Standards & Financial Markets Integrity Division
CFA Institute

/s/ Ashwinpaul Sondhi
Ashwinpaul Sondhi
Chair
Corporate Disclosure Policy Council

cc: CFA Institute Corporate Disclosure Policy Council

Appendix

STATEMENTS FROM THE PCAOB

James R. Doty, Chairman

- AICPA National Conference on SEC and PCAOB Developments (December 9, 2013)

  Investors have long asked for the names of engagement partners to be disclosed, in order to give them more information about the auditor.

  The disclosure would require no new work by the auditor. Yet as with previous accountability reforms like it — such as Sarbanes-Oxley's requirement that CEOs and CFOs personally certify their company's financial statements and internal controls — it holds the promise of improving audit quality by sharpening the mind and reminding auditors of their responsibility to the public.

  Indeed, over the years, the PCAOB's inspections and disciplinary matters have revealed that firms have not always given the critical task of engagement partner assignment the care it deserves. In many fields, disclosure — Justice Louis Brandeis called it "sunlight" — has given numerous fields and professions the information they need to see and then remedy a problem.

  PCAOB inspectors have found that knowing the identity of a firm's engagement partners is a useful piece of data to assess the potential risk for deficient audits. PCAOB inspections are risk-based, and monitoring engagement partner audit work is one of our important indicators of risk. A number of our Part I findings — that is, the most significant audit deficiencies — are identified in audits where the partner assigned was one of the factors our staff used to make the selection.

- Investor Advisory Group Meeting (October 16, 2013)

  I think that there is no simpler or less expensive reform that should and could be put in place than requiring the disclosure of the name of the partner on the engagement. I think nothing sharpens the mind more than a signature.

- Statement on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits (December 4, 2013)

  The disclosure would require no new work by the auditor. Yet as with previous accountability reforms like it — such as Sarbanes-Oxley's requirement that CEOs and CFOs personally certify their company's financial statements and internal controls — it holds the promise of improving audit quality by sharpening the mind and reminding auditors of their responsibility to the public.

  The capital markets know that audit quality is not all equal, and they are willing to pay more for reliable audits, in the form of reduced financing costs for companies that obtain such audits. The corollary is also true: markets demand a premium cost of capital from companies that present an audit report that is perceived to be less reliable.

This proposal is a way to use the motivating power of our markets to incentivize higher quality audits. But to do so, the markets need information.

Lewis H. Ferguson, Board Member

- Statement on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits (December 4, 2013)

  Oral Remarks:

  I look at this project as part of a larger effort by the PCAOB to cast more light on the audit process for the benefit of investors and other users of financial statements. Up to now, to a great extent, investors — in looking at the results and process of the audit -- have had to view it through a glass darkly, as the Bible says. There has been very little transparency into who performs the audit, what the audit work is, what the auditor thinks and what the auditor knows beyond that the financial statements are or are not fairly presented. Audit committees have had access to this information for many years, but investors -- who after all are the owners of the company -- do not have access to that information. I believe that this project -- along with the Board's revised auditor's reporting model proposal, our efforts to make our summary inspection findings more useful to the public, and the Board's outreach to investors and audit committees -- can provide information that investors may find useful.

  One other thing I want to point out about the naming of the engagement partner is that it moves the United States into conformity with what is increasingly the practice in the rest of the world. The European Union already requires disclosures of the auditor's name and signature of the audit reports by the audit engagement partner. Australia requires the auditor to sign the auditor report. The International Auditing and Assurance Standards Board has a proposal out that would require disclosure in the audit report of the engagement partner's name. If that is adopted, as it is likely to be, that will become binding on the many countries around the world that will follow those standards. If we don't move in this way, the United States will be an outlier and I don't think we should be an outlier on an issue like this.

  Written Remarks:

  I believe that we should promote disclosure and increase the transparency of participants in the audit for the benefit of the investing public, and that doing so will enhance the operation of our capital markets. Today, the standard auditor's report tells readers of the report nothing about the identity of the participants in the audit beyond the name of the principal audit firm. Allowing users of financial statements to determine the identity of at least some of the participants in the audit may enhance their ability to assess the reliability of the audit report, and to be better informed when voting on whether to approve the selection of auditors.

Steven B. Harris, Board Member

- Statement on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits (December 4, 2013)

  Investors and others have asserted that disclosure of the engagement partner's name will produce a heightened sense of accountability for the audit on his or her part, which will *lead to more robust audit behavior and higher quality audits. This is not surprising, given that personal accountability is a foundation of performance, in all walks of life.*

As Justice Louis Brandeis stated "sunshine is the best disinfectant." I support these amendments because I believe investors and others deserve to know the names of the engagement partner and other firms participating in the audit. I also strongly believe that the increased transparency and sense of accountability on the part of the engagement partner will benefit investors, audit committees, and the market at large. I also agree with commenters that this enhanced sense of accountability will result in improved audit quality.

Martin F. Baumann, PCAOB Chief Auditor and Director of Professional Standards

- PCAOB Open Meeting (December 4, 2013)

As an engagement partner I'll share the fact that if I had to have my name identified or sign the audit report, I don't think that would have troubled me at all in the context of I felt I was doing the work in accordance with professional standards and I knew what the liability was. I'm just saying that part of this document includes the fact that I have experience in this regard and that I believe that such disclosures are appropriate.

PCAOB INVESTOR ADVISORY GROUP
(Meeting Transcript-October 16, 2014)

Brandon Becker, Executive Vice President and Chief Legal Officer
TIAA-CREF

Well, I do think that the signature makes a lot of sense, the same way we do it with mutual fund portfolio managers and the like where the SEC has been much more aggressive. I discount the liability issues for the various and other sundry reasons.

Robert M. Tarola, President
Right Advisory LLC

I am in favor of transparency of the signer of the audit opinion. I think that there should be no difference between that signature and that of a CFO on the financial statements.

Judge Stanley Sporkin, Retired

I agree with Chairman Doty's view on the signature on the audit. I think that the person who has done it has got to sign it. I think that should be a no-brainer.

Lynn E. Turner, Managing Director
LitiNomics and former SEC Chief Accountant

Getting the auditor's name, I think, would be very good. In fact, I'm shocked that this thing's been debated for 40 years and finally it looks like maybe someone will actually do something about it.

In the state of Colorado, engineers and architects, you can add those to the list of people who have to sign in their own personal name, in addition to the CPAs who give expert reports, the boards and all those people. In fact, when you come down it, the auditors signing these audit reports are about the only people that don't have to put their name down. Everyone else does. And they're the only ones, and there's no good reason why they should be given special privilege whatsoever.

Damon A. Silvers, Director of Policy and Special Counsel
AFL-CIO

I again want to speak to this question of identifying the partner. Like Lynn, I mean I've been on many bodies that have advised doing this over a period of years and it just continues to surprise me it's not done, particularly against the context of, for example, the fact that individual attorneys sign SEC filings. The fact that in general we demand a great deal of individual disclosure in disclosure systems generally. This is true with respect to boards of directors, to corporate executives. Corporate executives have to individually sign financial statements.

Joseph V. Carcello, Ernst & Young Professor, Department of Accounting and Information Management, and Co-Founder and Director of Research, Corporate Governance Center
University of Tennessee

In terms of auditor transparency, there's a growing body of literature that finds that, in fact, identification or signature is helpful. Much of that literature the Board has seen. As others have already said, CEOs, CFOs, chief accounting officers have certified Ks and other documents for years without huge problems. Most of the developed world require the partner to sign or be identified, virtually all of Europe, China, Australia. Has not been a problem. And I'll close with another quote from a very bright person. "Common human experience *suggests that when an individual is publicly identified with a particular activity that identification usually leads to a higher degree of care and focus." I agree.*

Mercer E. Bullard, Associate Professor of Law and Jessie D. Puckett, Jr., Professor, University of Mississippi School of Law; Vice President, Plancorp, LLC; Founder and President, Fund Democracy, Inc.

You have the SEC now saying it's not going to take no-admit, no-deny settlements anymore and pointing out it's going to go after individuals. And this is precisely what we need to do. We need to make individuals responsible, because in this sense corporations are not people. Corporations can't take action without an individual having taken that action. So I think that putting the name and the face on the action will have this behavioral modification effect, it also will be the kind of liability risk that you want.

Norman J. Harrison, Senior Managing Director
FTI Consulting

Many of us in this room have at one point or another in our lives served as an expert witness in civil litigation. And it's not a perfect analogy but it's close, where we've been asked to examine a body of evidence and to apply judgment and experience to it and render an opinion on one or more issues. And certainly under the Federal Rules of Evidence we sign the reports, we don't sign our firms' name to the reports. And then we are often challenged as to whether we possess the requisite expertise or not and a judge has to decide and we're deposed and there is sometimes an exhausting level of review and transparency disclosure on the contents of our report. I'm not suggesting that same level of increase should apply here, but again it goes back to this notion of when someone holds themselves out as a professional it's hard to find many other examples where the individual's name isn't on it.

Barbara L. Roper, Director of Investor Protection
Consumer Federation of America

People speak differently when they're making an anonymous comment in the blogs or when their name is attached to a comment. We know in a variety of context that this does affect people's conduct, and it affects people's conduct, I think, in this way precisely the way we want to affect it, which is to make them think more seriously about just exactly how comfortable they are with the opinion they're rendering. And so I mean, I think the benefits of this proposal are self-evident. We've been talking about it for years, and I think, you know, I would strongly support the Board moving forward in that area.

Anne Simpson, Senior Portfolio Manager, Global Equity
California Public Employees' Retirement System (CalPERS)

I agree with what's been said that these corporate forms, be they joint stock companies or partnerships, the corporate forms have a lot of purposes. But these are not moral agents and cannot be held. So whichever Lord Chief Justice, way back when, said, you know, corporations have neither a body to kick nor a soul to condemn to eternal damnation, at that point we're then back to people. And whatever has been said about political donations and political speech about corporations being persons is nonsense. So if we want to change behavior, the corporation is not something that will behave differently. It's people that will behave differently, and behavior does change under observation.

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March 17, 2014

Ms. Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board (PCAOB)
1666 K Street, N.W.
Washington D.C. 20006-2803

Re: **PCAOB Rulemaking Docket Matter No. 029, Improving the Transparency of Audits**

Dear Ms. Brown:

CohnReznick LLP ("CohnReznick") appreciates the opportunity to comment on the proposed amendments to PCAOB auditing standards to provide disclosure in the auditor's report of certain participants in the audit.

CohnReznick is the 10th largest accounting firm in the U.S., with its origins dating back to 1919. We are committed to serving clients that access the capital markets, and we recognize the significant role we have in facilitating efficient capital formation. We are pleased to support the Board in its mission to further the public interest in the preparation of "informative, accurate, and independent audit reports", and the intent to improve the transparency of the audit to the users of financial statements.

The Board indicated in the reproposal that it believes including the identity of the engagement partner and other firms associated with the audit would provide information that investors and other financial statement users would find useful. In the attachment to this letter, we respond to the specific questions on which the Board is seeking comment. We hope our comments provide the Board with insights about alternatives to inclusion of such information in the auditor's report. We believe that these alternatives would mitigate some of the negative consequences acknowledged by most public comments to the original proposal, while furthering the goals of the reproposal.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Kurtis Wolff at 770-330-1167.

Yours truly,

CohnReznick LLP

CohnReznick LLP

EXECUTIVE SUMMARY

We believe that the name of the audit engagement partner and the extent of participation by other firms in the audit is information financial statement users should have access to if desired. We do not believe such information should be considered as confidential or proprietary to the firm. However, we believe that the audit report is not the appropriate means of communicating such information. To highlight the engagement partner's name in the audit report creates a misperception that companies engage with individuals to perform independent audits, rather than audit firms, and obfuscates the fact that the audit requires the capabilities and judgment of many professionals. We agree with the Board that the public interest would be better served through greater transparency about the audit process, including, in our view, the role of the firm's quality processes in delivering the audit and the interaction with the issuer's audit committee.

To that end, our recommendation is that the name of the engagement partner and the extent of participation by other firms be made available in a manner that provides context for the financial statement user. Form 2 filed with the PCAOB connotes the context of the firm as registered with the PCAOB. The audit committee report or another location within the proxy statement would connect the audit partner and the related firm to the unique relationship required in public company audits with the audit committee assessment and process of engaging and interacting with the partner and the firm as a whole. Each of these alternatives not only provides context for the user, but also eliminates many unintended consequences, complications, and significantly enhanced legal liability (if by perception alone), by eliminating the formal consents that the PCAOB believes at this time would be required if such information was provided in the auditor's report.

QUESTION 1: Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

We believe the usefulness of disclosing the engagement partner's name or information about other participants in the audit report is limited. Users of the financial statements have essentially two ways to legitimately respond to negative information about the engagement partner's history in the audit report: 1) refuse to invest in the entity or sell investments in the entity, or 2) refuse as a shareholder to ratify the independent auditor for the subsequent year end audit. We believe the likelihood of either of the aforementioned responses is negligible, for reasons described in our responses to other questions below. We believe the overwhelming likelihood is that a user's knowledge of the engagement partner's name or information about other participants will result in no response in almost all situations.

QUESTION 2: Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

We believe the usefulness of the engagement partner's name or the extent of participation by others would be of limited value to a shareholder in deciding whether to ratify the company's choice of a registered firm as its auditor. The information provided in the audit report is untimely for such a decision. It would be more useful for the name of the engagement partner or information about other participants to be provided to the shareholders prior to the execution of the audit. We think it is more likely that knowledge of an engagement partner's history, or the history of other participants will provide investors with information about the oversight actions and activities of the Audit Committee. Based on the Audit Committee's response to such information, investors might be able to make a better evaluation of Audit Committee performance.

QUESTION 3: Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

Even if the amendments in the reproposal are not made, over time, we believe databases and other compilations will be developed in which investors and other financial statement users may be able to track certain aspects of an individual engagement partner's history. We believe that in addition to the usefulness of such information for investors, there are positive benefits to such a development for the partners themselves and for the audit firms they are a part of. Our view is that such development is not dependent on the name of the engagement partner being included in the audit report. In fact, we believe other means for providing information about the engagement partner would better facilitate the development of such databases and compilations. It is also likely that in response to the development of such compilations or databases, the registered firms themselves will develop more useful means of providing this information, via their publicly accessed websites, where it could be viewed by interested investors in the context of the firm's audit process and quality reporting.

a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?
b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

Such databases or compilations might allow investors and audit committees over the course of time to perform a more efficient approach to the due diligence required of audit committees in approving the engagement partner and the registered accounting firm prior the audit. Our view is that if the name of the engagement partner were provided via a means more timely than the audit report, investors would have an opportunity to influence the actions of the audit committee in a positive way. We consider two alternatives to be viable solutions to both the need to have the information and the need for the information to be readily accessible for analysis: 1) an expansion of Form 2 provided to the PCAOB, with updated timelines for submitting information about the audit participants, or 2) presentation within the issuer's definitive proxy statement either within the audit committee disclosure or another location. The use of Form 2 has the benefit of making the PCAOB website a single location for collection of data. We think the timeliness of the information can be ensured by modifying the reporting requirements of the firms to file certain information earlier. However, we acknowledge Form 2 has the drawback of being a location investors may not be familiar with, and is currently not designed to be a searchable location for such information. We also acknowledge the Board has previously considered the use of the issuer's definitive proxy statement as an alternative, and the timing of the filing was a concern.

QUESTION 4: Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

We believe over time databases and other compilations will be developed in which investors and other financial statement users may be able to track certain aspects of other participants in the audit, to the extent those other participants are organizations and/or other firms with public profiles. See our comments to questions 1, 2 and 3 above regarding the usefulness of such information.

QUESTION 5: Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

We believe the ability to research publicly available information about the engagement partner or other participants in the audit is moderately important, when such research can be performed prior to the appointment of the engagement partner. We support the facilitation of the creation of databases and other compilations that would present a fact based depiction of the history of such partners/participants that is uncumbersome for users to access and navigate. However, we believe that inclusion of such names in the audit report does not achieve such facilitation, and we would favor a means that allows data to be more timely and easily collected.

QUESTION 6: Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

We strongly believe that disclosing the engagement partner’s name detracts from the proper understanding of the collective effort involved in providing an audit. While the engagement partner undoubtedly has a critical role in the leadership and oversight of the quality of an audit, the skills and experience of the other members of the audit team are also very important. Focusing attention on the engagement partner in the audit report we believe would cause users to infer that other skills and experience were not a part of the overall audit effort. As such, we believe the proposed disclosures have the potential to negatively impact capital formation. Our overall consistent view is that the limited usefulness of information about the audit engagement partner to investors, and the additional requirements burden taken together make it unlikely to promote more effective capital allocation. A company’s financial statements are the responsibility of management, and therefore, a conclusion drawn about the reliability of the financial statements based on the history of the audit engagement partner would be tenuous.

QUESTION 7: Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

At this point we do not anticipate that the disclosure of the engagement partner’s name or information about other participants will materially promote or inhibit competition among audit firms.

QUESTION 8: Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

Consistent with our response to question 6 above, we believe the reproposed disclosure requirements will lead investors and other financial statement users to draw incorrect conclusions about the amount of experience and capabilities required of the whole audit effort. While some professions, such as legal firms, have a model where clients are more closely attached to the partner that serves them, public accounting follows a different model out of necessity. In fact, rules enacted requiring partner rotation demonstrate the understanding that companies engage with the firm, not the partner, for the services of an audit. Disclosing the engagement partner's name or information about other participants in the audit report is furthermore of limited value because such communication is out of context with the firm's quality processes and the importance of the firm's audit quality indicators.

We also believe the reproposed requirements change the risk profile of the engagement partner and the result will be an increase in the cost of talent acquisition and retention, both at the partner level and below, within the registered firms. While we support the goal of transparency, as previously stated, we feel the use of the audit report as the means to make available the name of the engagement partner creates the potential for personal liability that makes it unnecessarily less desirable to serve as the lead engagement partner for a public company audit. Furthermore, fixation on data within an audit partner's history that is not indicative of the level of quality the audit partner delivers might cause some partners to exit the practice, which would actually diminish audit quality for the profession as a whole and be detrimental to capital markets. We expect the requirements of the reproposal will make it more difficult for audit firms to identify audit partners willing to fill the role of lead engagement partner.

We highlighted in our response to question 1 above the legitimate responses a user might have to the information that would be disclosed under the reproposal. We hope the Board is aware that inappropriate responses are also a concern, such as harassment of the partner and other malfeasance. We believe social networking exacerbates this unintended consequence.

QUESTION 9: What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

As described in our response to question 8 above, we believe the cost of talent acquisition and retention will be adversely affected by the reproposed changes. Those costs will impact firms' overall talent costs, which will ultimately be reflected in audit fees, and will make it more difficult to maintain the level of quality afforded through more available resources. Furthermore, audits of EGCs sometimes carry a greater amount of audit risk, and the proposed changes will make audit partners less willing to become the engagement partner on EGC companies, for the reasons further described in our comments on unintended consequences, causing EGCs to bear a disproportionate share of the increased costs associated with the reproposal. See our additional comments related to the applicability of the reproposed requirements to EGCs in our responses to questions 24 and 25 below.

QUESTION 10: What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

As the Board acknowledged in the reproposal, identifying the name of the lead engagement partner in the audit report would likely mean that engagement partners would have to provide a consent to the inclusion of their names in an auditor's report filed with or incorporated by reference in another document filed with SEC. We believe there are common circumstances, such as rotation requirements, that could make it difficult to obtain such consents in a timely manner. For this reason, we strongly favor alternatives of providing the information the Board seeks to provide via means other than inclusion in the auditor's report. In evaluating the cost benefit of the reproposal, the Board should consider the reaction that the professional liability providers to the accounting profession would have to the potential increased risk for the individual partners and firms.

QUESTION 11: Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

See our response to question 12 below.

QUESTION 12: Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

The academic evidence described on page 30 of the reproposal does not indicate that a definite link exists between disclosure of the engagement partner's name and increased accountability. Our view is that the disclosure of the name of the audit engagement partner will not impact the sense of accountability, or have a meaningful effect on audit quality. Our view is consistent for both large and smaller engagements, including audits of EGCs.

QUESTION 13: What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

Consistent with our views described in our response to question 9 above, we believe the following costs will be imposed on firms and issuers:

- Additional legal liability costs, as acknowledged by the Board
- Talent acquisition and retention costs associated with the increased risks to engagement partners as a result of additional legal liability costs
- Sourcing costs associated with other participants in the audit as a result of the additional risk of legal liability
- Administrative costs associated with preparing the disclosure when the participation of others must be described, and
- Administrative costs associated with obtaining consents

QUESTION 14: What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

We chose not to respond to this question.

QUESTION 15: Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

We believe the application of the consent requirement to other firms named in the report would result in benefits such as improved compliance with existing requirements.

QUESTION 16: Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

We agree with the Board that disclosing a range is sufficient for the purpose of conveying the materiality of participation by others in the audit. Our view is that even if the proportion of participation were expressed as a single number, users of the audit report would nevertheless consider the impact of such participation based on ranges within their own perception. Requiring a range rather than a single number reduces the cost to the entity of the auditor’s performance of the reproposed requirements.

QUESTION 17: Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

We agree with the Board that 5% is a more appropriate threshold than the originally proposed 3%. Increasing the disclosure threshold above 5% would not be more appropriate in our view.

QUESTION 18: Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?
b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

We agree with the Board’s approach in the reproposal with respect to the inclusion of audit firms that are distinct from the issuing firm regardless of affiliation. However, the disclosure requirement definition of “distinct from the accounting firm issuing the report” could be improved by addressing the role of the “parent” firm. Audits of large multi-national corporations frequently use offices of firms that are owned by the same parent firm as the issuing firm, but not by the issuing firm itself. It is not clear from the reproposal requirements whether such entities are considered included or excluded from the disclosure requirements.

QUESTION 19: Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

We chose not to respond to this question.

QUESTION 20: Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?
b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

We chose not to respond to this question.

QUESTION 21: In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

Our view is that the usefulness of information provided about other participants is materially the same for both other accounting firms and non-accounting firms. We believe information other than the participant’s location and extent of participation would not yield additional benefits.

QUESTION 22: If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

We believe it might be beneficial for the Board to require the firms to disclose the same information on Form 2 or a similar form maintained and made public on the PCAOB’s website, as doing so would provide users with a single source of information from which databases or other compilations could be created over time.

QUESTION 23: Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

We note that Broker-Dealers include both clearing and introducing firms. Even though all Broker-Dealers must file reports with the SEC, introducing Broker-dealers are predominantly not publicly traded registrants, but instead companies closely held by a few owners, who are usually familiar with the financial reporting process of the Broker-Dealer. Our view is that including the audit partners name in the audit report will not increase the transparency to those owners because of their closely held nature and the fact that owners typically are involved in the selection of the auditor.

QUESTION 24: Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

Our view is that the impact to EGCs is the same as other entities with regard to the usefulness of information about the engagement partner or the other participants in the audit. However, given our previously described views on the net effect of the reproposed requirements on effective capital formation, we believe applying the reproposed disclosure requirements to audits of EGCs is counter to the intent of the JOBS Act in creating the EGC designation.

QUESTION 25: Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

Our view is that the disclosures that would be required under the reproposed amendments are neither more nor less important in audits of EGCs. We do not perceive additional benefits of the reproposed amendments that are specific to EGCs.

CNCC
COMPAGNIE
NATIONALE DES
COMMISSAIRES AUX
COMPTES

Le Président

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington D.C. 20006-2803
United States of America

March 17, 2014

RE: PCAOB Rulemaking Docket Matter n°029 - *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*

Dear Sir or Madam,

The CNCC ("Compagnie Nationale des Commissaires aux Comptes", the French Body of statutory auditors) is very pleased to have the opportunity to provide its comments on the PCAOB's reproposed auditing standard: Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit.

These proposals would amend the Board's auditing standards to require the audit report to include (1) the name of the engagement partner on the most recent audit and (2) information about independent public accounting firms, other than the principal auditor, and certain other persons that participate in the audit ("Audit Participants"). The proposals modify the Board's prior proposals issued in 2011.The CNCC's general comments to the issues raised in the PCAOB proposed rulemaking that are relevant from a European or international perspective are set out below:

1. Engagement partner's name on the audit report

The CNCC agrees that disclosing the name of the engagement partner could add to the transparency of the audit. In Europe, the name of the engagement partner appears at the bottom of the audit report in connection with the name of the audit firm on behalf of which the audit is carried out. The name of the audit partner on audit reports is also required by the 2006 Statutory Audit Directive[1]. European Member States may allow the name not to be disclosed in exceptional circumstances if the inclusion of it could lead to an imminent and significant threat to the personal security of that person.

[1] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2006L0043:20130719:FR:PDF

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However, the CNCC acknowledges that the liability position of auditors in the US is different from auditors in Europe and may not fully appreciate the liability implications for audit partners signing reports used in the US. The name required in the EU is given under the provisions of the various European liability regimes for auditors and/or audit firms at national level and does not diminish the responsibility of the audit firm to establish appropriate quality control systems.

The CNCC believes it is important to assist users in putting the new information in appropriate context and not drawing unwarranted conclusions about the engagement partner or the audits he or she oversees. For example, we think users need to understand that an audit is the responsibility of the firm that issues the audit report, more so than the individual identified as the engagement partner. Similarly, in considering the qualifications of an individual to serve as engagement partner, users should also understand that others within the firm significantly contribute to the audit.

2. Disclosure of Certain Other Participants in the Audit

The CNCC is not convinced about the usefulness of the disclosure of certain other participants in the audit even if it is in general terms without naming the persons involved. The CNCC believes that, for multinational audits, disclosures of those that took part in the audit, but are not employed by the audit firm, will likely be extensive and make audit reports significantly longer. Such extensive disclosures would distract from the key messages that audit reports are intended to convey to users. Whether it is in an environment of sole or divided responsibility, the disclosure should clearly distinguish between those that have responsibility for the audit and those that took part in the audit (as members of the engagement team, whether employed or not by the audit firm).

As to Audit Participants for which information is provided, the group auditor is responsible for the entire audit and expresses an opinion about the financial statements taken as a whole; the group auditor must take steps to satisfy himself that he can rely on the work of the Audit Participants in rendering its audit report.

Audit Participants have a legitimate concern that being named in the audit report could expose them to incremental private civil litigation and personal liability. The CNCC does not believe the Board has adequately considered these risks in advancing its proposed standards. In the Proposing Release, however, the Board assumes that naming the Audit Participants in the audit report will impose statutory liability on them under section 11 of the Securities Act and section 10 (b) of the Exchange Act, liability that they do not currently possess. Audit Participants that do not issue audit reports themselves do not currently face any material risk of section 11 of the Securities Act or section 10 (b) of the Exchange Act liability, because the group auditor takes responsibility for their work and the Audit Participants are not identified in a public document. If they become parties to section 11 or a section 10 (b) litigation because they are named in an audit report, they will incur costs in defending this litigation, which can include counsel fees, discovery and insurance costs and management time and distraction. These costs could be substantial. And regardless of the liability risks, plaintiffs may opportunistically name Audit Participants as defendants in a section 11 or a section 10 (b) case in order to gain advantage in the litigation or settlement.

The CNCC believes that foreign accounting firms may, by virtue of being named in the audit report, consider themselves to be associated with the report. They may feel it necessary to undertake a wider range of procedures, including reviewing the complete financial statements and SEC filing in which the statements are contained, in order to consider whether other statements in the filings are consistent with the work they performed on the audit or whether other parts of the filing raise association risks. This concern is heightened because the Audit Participant will not provide a separate report and it will not be clear from the face of the audit report what parts of the audit are attributable to the Audit Participant. Performance of these procedures will result in unnecessary costs, as the Audit Participant will be performing procedures and inquiring in areas they were not involved in during the audit.

Incidentally, the CNCC believes naming component audit firms, whatever the reporting threshold adopted, would not provide that much additional benefit to investors.

3. Consent requirement

The new consent requirement for engagement partners and named Audit Participants could also create practical and logistical problems.

The consent requirement would present problems with respect to partners who are no longer associated with the firm. It may be difficult, time-consuming or impossible to obtain consents from partners who are no longer associated with the firm, who are deceased, incapacitated or not easily reachable or who, being no longer associated with the firm, decline to provide a consent. If a consent is unable to be provided, the SEC may reject the filing as incomplete, or the issuer may have to request a waiver, which again could be time-consuming and result in additional expense.

The CNCC believes that the process for obtaining consents from Audit Participants may also present logistical problems. As noted above, new consents will be required from all named Audit Participants for every registration statement and amendment after the initial filing of the audit report. The need to obtain consents from numerous non-US firms—and for those firms to perform the necessary procedures in order to be able to issue the consents—could lead to delays in completing the offerings and additional costs.

The consent filing requirement may also subject named foreign participants to U.S. jurisdiction that would otherwise not exist. Risks also exist under state law. For example, state law negligence and fraud claims are often asserted against accounting firms, including by bankruptcy trustees or receivers. Individual partners (and other participants in the audit) are not typically named as defendants in such lawsuits, but the identification of them in the auditor's report could change that.

For all these reasons, the CNCC believes that the perceived benefits of including information about other Audit Participants in the audit report itself are substantially outweighed by the significant potential litigation risks and costs that this creates and the practical difficulties created by the requirement to obtain consents.

Yours sincerely,

Yves Nicolas
President of CNCC

Gilles Hengoat
President of Department of
Financial Markets of CNCC

Council of Institutional Investors
The Voice of Corporate Governance

Via Email

March 17, 2014

Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: *Improving the Transparency of Audits: Proposing Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit (PCAOB Rulemaking Docket Matter No. 029)*[1]

Dear Madam Secretary:

The Council of Institutional Investors ("CII") appreciates the opportunity to provide comments on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") reproposal to amend its standards to improve the transparency of public company audits ("Amendments").[2] CII is a non-profit, non-partisan, association of pension funds, other employee benefit funds, endowments and foundations with combined assets that exceed $3 trillion.[3]

As the leading voice for effective corporate governance and strong shareowner rights, CII believes that accurate and reliable audited financial statements are critical to investors in making informed investment decisions, and vital to the overall well-being of our capital markets.[4] That strong belief is reflected in the following CII membership approved policy on "Independence of Accounting and Auditing Standard Setters:"

> Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. The efficiency of global markets—and the well-being of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures. The quality, comparability and reliability of that information, in turn, depends directly on the quality of the . . . standards that . . . auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions.[5]

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[1] PCAOB Release No. 2013-009 (Dec. 4, 2013), *available at* http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB%20Release%20No%20%202013-009%20-%20Transparency.pdf.
[2] *Id.* at 1.
[3] For more information about the Council of Institutional Investors ("CII"), please visit CII's website at http://www.cii.org/.
[4] Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (Adopted Oct. 7, 2008), http://www.cii.org/policies_other_issues#indep_acct_audit_standards.
[5] *Id.*

Our policy on Independence of Accounting and Auditing Standard Setters also establishes the principle that "investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs."[6] Our membership reaffirmed that principle last spring when approving substantial revisions to our policy on "Auditor Independence."[7] That policy includes the following provisions that we believe are relevant to issues raised by the Amendments:

2.13 Auditor Independence

2.13a Audit Committee Responsibilities Regarding Independent Auditors: The audit committee should fully exercise its authority to hire, compensate, oversee and, if necessary, terminate the company's independent auditor. In doing so, the committee should take proactive steps to promote auditor independence and audit quality. Even in the absence of egregious reasons, the committee should consider the appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to:

. . . .

- the track record of the lead partners and the extent of their professional commitments, as provided upon request or observable through disclosure or signature of the lead partner on the auditor's report

. . . .

Investors are the "customers" and end users of financial statements and disclosures in the public capital markets. Both the audit committee and the auditor should recognize this principle.

. . . .

2.13f Shareowner Votes on the Board's Choice of Outside Auditor: Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor. Such provisions should state that if the board's selection fails to achieve the support of a majority of the for-and-against votes cast, the audit committee should: (1) take the shareowners' views into consideration and reconsider its choice of auditor and (2) solicit the views of major shareowners to determine why broad levels of shareowner support were not achieved.[8]

[6] *Id.*
[7] Council of Institutional Investors, Corporate Governance Policies § 2.13 Auditor Independence, *available at* http://www.cii.org/corp_gov_policies#BOD.
[8] *Id.*

In applying the language, background, and intent of the above referenced membership approved policies to the issues raised by the Amendments, we have reached the following conclusions:

Disclosure of the Name of the Engagement Partner

CII, consistent with our long-standing views on this topic,[9] strongly supports the Amendments requiring the disclosure in the auditor's report of the name of the engagement partner for the most recent period. Our support is based, in part, on our membership approved policy on Auditor Independence.

The language, background, and intent of our policy on Auditor Independence indicates that our members' believe that an efficient tool for collecting information about the engagement partner would be through disclosure of the engagement partner's name in the auditor's report. We believe such disclosure would result in databases or compilations of information about the engagement partner that would be useful to investors. More specifically, our policy indicates that information about the engagement partners' track record and the extent of their professional commitments would be relevant to our members as long-term shareowners in determining how to cast votes on the more than two thousand proposals that are presented annually to shareowners on whether to ratify the board's choice of outside auditor.[10]

Our support for the disclosure requirement is also based on the related recommendation and conclusions of the U.S. Department of Treasury's Advisory Committee on the Auditing Profession ("ACAP").[11] In what was certainly one of the most comprehensive studies of the auditing profession in U.S. history, the ACAP concluded that "the engagement partner's signature on the auditor's report would increase transparency and accountability."[12]

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[9] *See, e.g.,* Letter from Jeff Mahoney, General Counsel, to Office of the Secretary 3 (Jan. 5, 2012) [hereinafter Jan Letter], http://pcaobus.org/Rules/Rulemaking/Docket029/022b_CII.pdf.

[10] ISS Voting Data (last visited March 13, 2014) (on file with CII) (Last year 2,696 companies in the Russell 3000 held a vote to ratify the board's choice of outside auditor.).

[11] U.S. Department of the Treasury's Advisory Committee on the Auditing Profession, *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* VII:19-20 (Oct. 6, 2008), *available at* http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf.

[12] *Id*. at VII:20. We note that the Department of the Treasury's Advisory Committee on the Auditing Profession's ("ACAP") recommendation to mandate the engagement partner's signature on the auditor's report originated with ACAP's Subcommittee on Firm Structure and Finances ("Subcommittee"). *Id.* at II:5. The Subcommittee was chaired by Robert R. Glauber, Board Member, Moody's Corporation, XL Capital Ltd., and Quadra Realty Trust, and included Timothy Flynn, Chairman and Chief Executive Officer, KPMG LLP, Gaylen R. Hansen, National Association of State Boards of Accountancy, and Principal, Director of Accounting and Auditing Quality Assurance, Ehrhardt Keefe Steiner & Hottman PC, Richard H. Murray, Managing Director and Chief Claims Strategist, Swiss Re, William D. Travis, Director and Former Managing Partner, McGladrey & Pullen LLP, Lynn E. Turner, Former Chief Accountant, Securities and Exchange Commission, and Senior Advisor, Kroll Zolfo LLC, and Ann Yerger, Executive Director, CII. *Id.* at III:1-2. We also note that the recommendation was explicitly endorsed by, among others, Don T. Nicolaisen, ACAP Co-Chair, former Chief Accountant, and Board Member, Morgan Stanley, Paul G. Haaga, Jr., Vice Chairman, Capital Research and Management, Mary K. Bush, ACAP Member, Board Member, Discover Financial Services, Dennis Johnson, Senior Portfolio Manager, Corporate Governance, California Public Employees' Retirement System, and Paul Lee, Director, Hermes Equity Ownership Services Limited. *Id.* at VII:19.

As we indicated in our January 2012 letter to the Board, we would have preferred that the PCAOB require the signature of the engagement partner as recommended by ACAP.[13] Consistent with our policy on Auditor Independence, however, we continue to believe the required disclosure of the name of the engagement partner has most of the potential benefits as the signature requirement.[14] We note that either requirement would result in information about the engagement partner that would be relevant to our members in determining how to cast votes on proposals to ratify the board's choice of outside auditor.

Finally, our support for the disclosure requirement is also based on what appears to be a growing body of empirical research indicating that the engagement partner's name in the auditor's report would enhance investor protection and, consistent with our policy, would be useful information to some investors.[15]

Disclosure About Certain Other Participants in the Audit

We also support the Amendments requiring information about certain other participants in the audit. We agree with the Board that investors, including some of our members, have called for greater disclosure in the auditor's report of the names and locations of other participants in the audit.[16]

It should not be surprising to anyone that investors are demanding more transparency about off-shoring and similar arrangements by audit firms. Information about those arrangements may be particularly relevant to investors when a significant portion of the audit work is being performed by a firm other than the one that signs the auditor's report and the other firm:

- Is not subject to inspections by the PCAOB or other regulators;
- Has a disciplinary history with the PCAOB or other regulators; or
- Is subject to different, and potentially conflicting, legal and regulatory requirements than the firm issuing the opinion.[17]

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[13] Jan Letter, *supra* note 9, at 3 ("We, therefore, would not object to a final standard requiring disclosure of the engagement partner's name, rather than signature, in the audit report.").
[14] *Id*. ("While our strong support for requiring the signature of the engagement partner in the audit report has not wavered, we acknowledge that the Release's proposed approach of disclosing the name of the engagement partner 'has most of the same potential benefits as a signature requirement.'").
[15] *See* Letter from Auditing Standards Committee, Auditing Section—American Accounting Association, to Office of Secretary, Public Company Accounting Oversight Board 2 (Jan. 9, 2012) ("disclosure of the engagement partner's name in the audit report would enhance investor protection . . . [and] investors may find this information useful"), *available at* http://pcaobus.org/Rules/Rulemaking/Docket029/024b_AAA.pdf; *see also* Joseph V. Carcello & Chan Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom,* 88 Acct. Rev. 1511, 1515 (2013) ("Our results are consistent with the argument that requiring an individual audit partner to sign a report improves audit quality by increasing the partner's accountability and transparency of audit reporting."), *available at* http://pcaobus.org/Rules/Rulemaking/Docket029/024b_AAA.pdf.
[16] PCAOB Release No. 2013-009 at 9 ("a task force of the Board's IAG conducted a survey of investors affiliated with investment banks, mutual funds, pension funds, and hedge funds . . . [and] [s]eventy percent of the investors surveyed who responded to a question about the desirability of disclosure of work on the audit performed by other firms said that they would like to know the degree of involvement in the audit of the firms that are not signing the auditor's report").
[17] *See id.* at 19.

In that regard, we also agree with the Board that:

> As with the disclosure of the name of the engagement partner, over time, information sources likely would develop about the firms that participate in public company audits, such as lists of their public company accounts, size of the accounting firms, disciplinary proceedings and litigation in which they have been involved, and similar matters. Such information likely would be useful to . . . investors . . . ."[18]

As indicated, we believe that investors need more information about certain other participants in the audit and, consistent with our policy on Independence of Accounting and Auditing Standard Setters, the Board should use the Amendments to satisfy those needs.

We thank you for considering our views in response to the Amendments. Please do not hesitate to contact me if you have any questions or would like any additional information about the contents of this letter.

Sincerely,

Jeff Mahoney
General Counsel

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[18] *Id.* at 20.

Council of Institutional Investors
The Voice of Corporate Governance

Via Email

August 15, 2014

Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: Improving the Transparency of Audits: Proposing Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit (PCAOB Rulemaking Docket Matter No. 029)[1]

Dear Madam Secretary:

The purpose of this letter is to express our surprise and disappointment in the report earlier this week in *The New York Times* that the Public Company Accounting Oversight Board ("Board") has decided to dramatically weaken the above referenced proposed amendments by issuing a final standard providing that "[a]udit partners will not be required to sign the statements, but can if they want to."[2]

As you are aware, the Council of Institutional Investors ("Council") is a nonprofit association of employee benefit plans, foundations and endowments with combined assets under management exceeding $3 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of American workers.[3]

[1] PCAOB Release No. 2013-009 (Dec. 4, 2013), *available at* http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB%20Release%20No%20%202013-009%20-%20Transparency.pdf.
[2] Jesse Eisinger, *DealBook, Once Powerful, Mary Jo White's S.E.C. Is Seen as Sluggish and Ineffective,* N.Y. Times, Aug.13, 2014, *available at* http://dealbook.nytimes.com/author/jesse-eisinger/.
[3] For more information about the Council of Institutional Investors (Council) and our members, please visit the Council's website at http://www.cii.org/about_us.

As we have indicated in several prior letters to the Board on this topic, the Council strongly supports *requiring* disclosure in the auditor's report of the name of the engagement partner.[4] Our support is based on the Council's membership-approved policies.[5] Those policies indicate that information about engagement partners' track record compiled as the result of requiring disclosure of the partner's name in the auditor's report would be relevant to our members as long-term shareowners in overseeing audit committees and determining how to cast votes on the more than two thousand proposals that are presented annually to shareowners on whether to ratify the board's choice of outside auditor.[6]

As we have also indicated in prior letters, we believe that the Council's position in favor of requiring disclosure in the auditor's report of the name of the engagement partner is generally supported by, among other sources, the recommendations and conclusions of the U.S. Department of Treasury's Advisory Committee on the Auditing Profession,[7] the growing body of empirical research indicating that the requirement would enhance investor protection and provide useful information to investors,[8] and the more than eight years of experience with a similar requirement in the European Union.[9]

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[4] *See, e.g.,* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Phoebe W. Brown, Office of the Secretary, Public Company Accounting Oversight Board 3 n.9 (Mar. 17, 2014), http://www.cii.org/files/issues_and_advocacy/correspondence/2014/03_17_14_CII_letter_to_PCAOB_improving_audits.pdf.

[5] Council of Institutional Investors, Corporate Governance Policies § 2.13 Auditor Independence (updated May 9, 2014), *available at* http://www.cii.org/files/ciicorporategovernancepolicies/07_08_14_corp_gov_policies.pdf.

[6] *Id.* (Indicating that one factor that audit committees and shareowners should consider in evaluating the independent auditor is "the track record of the lead partners and the extent of their professional commitments, as provided upon request or observable through disclosure or signature of the lead partners on the auditor's report.").

[7] U.S. Department of the Treasury's Advisory Committee on the Auditing Profession, *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* VII:19-20 (Oct. 6, 2008), *available at* http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf.

[8] *See* Letter from Auditing Standards Committee, Auditing Section—American Accounting Association, to Office of Secretary, Public Company Accounting Oversight Board 2 (Jan. 9, 2012) ("disclosure of the engagement partner's name in the audit report would enhance investor protection . . . [and] investors may find this information useful"), *available at* http://pcaobus.org/Rules/Rulemaking/Docket029/024b_AAA.pdf; *see also* Joseph V. Carcello & Chan Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom,* 88 Acct. Rev. 1511, 1515 (2013) ("Our results are consistent with the argument that requiring an individual audit partner to sign a report improves audit quality by increasing the partner's accountability and transparency of audit reporting."), *available at* http://aaajournals.org/doi/abs/10.2308/accr-50450.

[9] PCAOB Release No. 2013-009 at A3-5 & A3-6 n.12.

As described in a prior letter, one recent example of the potential benefits of requiring disclosure in the auditor's report of the name of the engagement partner was the case of former KPMG LLP ("KPMG") partner Scott London.[10] In the midst of the 2013 proxy season, it was publicly reported that Mr. London was separated from KPMG for his involvement in providing non-public client information to a third party in exchange for cash.[11] While investors and the general public learned within one day that Mr. London was the engagement partner on Herbalife and Skechers USA, weeks later Michael Andrew, then Chairman of KPMG, indicated that he was "prevented by confidentiality agreements from revealing *what other companies' audits were led by Mr. London*."[12]

Requiring disclosure in the auditor's report of the name of the engagement partner would, in our view, facilitate the ability of shareowners to obtain useful information about the track record of lead audit partners—information that many investors demand and deserve to know.

Thank you for considering our comments on this important issue. Should you have any questions or require any additional information about the Council's views on this matter, please feel free to contact me at 202.261.7081 or jeff@cii.org.

Sincerely,

Jeff Mahoney
General Counsel

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[10] Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Office of the Secretary, PCAOB 2-3 (May 23, 2013), http://www.cii.org/files/issues_and_advocacy/correspondence/2013/05_23_13_letter_to_PCAOB_on_improving_transparency.pdf.

[11] Peter Lattman & Michael J. De La Merced, *DealBook, KPMG Cancels Audits Over Insider Trading Inquiry,* N.Y. Times, Apr. 9, 2013, at 1-5, ***available at*** http://dealbook.nytimes.com/2013/04/09/kpmg-said-to-resign-as-herbalifes-auditor-over-investigation/.

[12] Patti Waldmeir & Kara Scannell, *KPMG Chief Dismisses 'One-Day Wonder' Scandal*, Fin. Times, Apr. 23, 2013, at 1 (emphasis added), *available at* http://www.ft.com/cms/s/0/cdbae386-abfa-11e2-9e7f-00144feabdc0.html#axzz3AUUF6LkI.

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February 12, 2014

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 029
Improving The Transparency of Audits: Proposed Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) Proposed Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit (Proposal).

We support the Board's outreach in understanding the views of users and investors and looking for ways to respond to their requests for further information about auditors and the audit process. It is a difficult task to balance the needs of users with the costs and consequences of changes to any standard, especially ones that have been in existence for many years. The Board's Proposal focuses on three specific changes to the auditor's report that are intended to address the information users have indicated would be useful as part of their overall assessment and evaluation of an issuer's financial statements and auditor's report thereon. While we understand the Board's desire to be responsive to the requests of users, we are concerned that certain of the proposed solutions do not address the objectives outlined in the Proposal.

Summary Comments

The first change described in the Proposal is the identification of the engagement partner. We do not believe there is sufficient objective data and research to support such a significant change to the audit standards in this regard. A change of this nature should be supported by conclusive evidence that identification of the engagement partner will in fact improve audit quality. We are also concerned about the potential litigation implications and recommend further analysis of this aspect prior to finalizing the standard. We also note that there are other practical and logistical concerns that will be difficult to resolve in practice, which are discussed later in our response.

The Proposal also requires identification in the auditor's report of other auditors used in the audit when their level of participation exceeds 5% of the audit hours. We understand the issues regarding others participating in the audit and are supportive of expanded transparency regarding the use of other auditors, however, in most situations we do not believe this information should be included in the auditor's report, rather we believe the appropriate location for this information is in Form 2. We believe there are logistical and practical challenges that would be difficult to overcome if the identification was included in the auditor's report under all circumstances. However, we believe that when other auditors represent substantially all or a significant majority of the total audit hours that identification in the auditor's report would be meaningful and useful information that outweighs the concerns that we have for disclosing this information in all circumstances.

The Proposal's final change is to disclose in the auditor's report whether the auditor used other persons not employed by the auditor in the conduct of the audit. It is not apparent how this data provides meaningful information to users, and whether a consistent outcome can be achieved by disclosure of this information. The auditor's decision regarding whether to maintain or utilize certain expertise within a firm or to contract for such expertise on a specific engagement basis can be based on many factors. As written, the change described in the Proposal might incorrectly imply that an outside expert is less qualified than an expert residing within a firm. Without knowing the specific end objective for disclosing this type of information, it appears that this disclosure results in just providing more information; not data necessary to a user's decision making process, which could lead to incorrect assumptions regarding audit quality.

Basis for Our Conclusions

<u>Disclosure of the Name of the Engagement Partner</u>

The Proposal indicates that naming the audit engagement partner in the audit report will further the objective of improving audit quality. The audit engagement partner plays a critical role in delivering audit services and is ultimately responsible for signing the firm's name on the opinion delivered to the issuer. However, when the audit engagement partner signs an opinion, it is on behalf of the firm, and is based on the work performed by the entire engagement team following the firm's audit processes and methodologies, and therefore presents the collective efforts of the firm and not any one person. Further, almost all firms have specific quality control processes that outline the firm's approach to conducting an audit that must be followed before signing an audit report. While an individual partner exercises his or her judgment throughout an audit, those judgments are subject to the firm's overall audit methodologies and quality control processes that require significant involvement from others prior to signing an audit report. For example, engagement quality reviewers are required to review all of the significant areas of the audit and concur with the conclusions by the engagement team. In addition, many firms require some level of national office involvement, whether on specific matters or as part of an overall quality assessment.

Firms are also required to perform monitoring of engagement partner performance as a method of verifying the engagement partner's performance adheres to the firm's standards and processes as well as PCAOB standards and SEC rules. Most firms hold their partners accountable for adherence to the aforementioned standards and rules. We believe identifying the engagement partner in the audit report can portray the wrong message to the public.

We believe the Board's proposal is a major change to audit standards and would have a significant impact to the identified partners. Such a change warrants sufficient research and data that supports such a view. We understand the Board has considered the limited research that exists; however, we note that the existing research at this time does not present a compelling basis or consistent results for warranting such a significant change to the audit report.

The Board notes that identification of the engagement partner could result in additional exposure under Section 11 and possibly Section 10(b), of the Securities Exchange Act of 1934 to the individual partner; however, that the increased transparency of the engagement partner justify this additional cost. We are concerned that the litigation implications are far-reaching and are not minimal. The Proposal appears to justify this additional cost to situations where misconduct was concluded upon, versus the broad breadth of litigation that is initiated often to all potential parties, including those with no culpability, as well as subjecting the named audit engagement partner to additional frivolous cases. We believe significant unintended consequences could result from this Proposal. We strongly recommend the Board consider specific outreach to the legal profession and others related to this aspect of the Proposal if the Board continues to move forward with this approach.

We are also concerned about the practical implications, and in some cases restrictions, in obtaining consents from individual audit engagement partners that would be required to comply with SEC requirements if named in audit reports. Having individual partner consent is charting new regulatory ground and all of the implications of that process have not been identified. We have the following concerns based on expected outcomes that we believe would likely result. In this context, it would be reasonable to expect a partner signing a consent, to request to perform sufficient subsequent events and other procedures, similar to the procedures a firm providing a consent would perform under current rules, guidelines and processes. We believe there could be significant practical challenges in obtaining individual partner consents when the consenting partner is no longer the engagement partner or remains with the firm. There are multiple situations that could impact a firm's ability to obtain the required consent from a former engagement partner, including the following examples:

- Issuers often raise capital subsequent to its year end audit that incorporates the most recent 10-K by reference. In years where the engagement partner associated with that 10-K is required to rotate off the engagement to maintain a firm's independence it is not clear whether the partner would be able to review subsequent events and other information in order to provide a consent and not violate SEC independence rules.
- Assuming the same timing of the capital raising scenario above; the following situations could also impact the ability to obtain a consent.
  - Partner retirements;
  - Partners that become disabled, or incapacitated and unable to sign a consent;
  - Partners changing firms – this example could provide unique challenges given client confidentiality and access to information issues

The above examples are fact patterns that would not be isolated or infrequent, but would happen regularly; and likely have a significant adverse impact on the timing and cost of capital raising efforts. The above concerns also do not address the fundamental issue of requiring a partner to consent to an issuers filing when the partner believes the risk profile of the specific engagement presents an undue risk to him or her personally, such that they are unwilling to sign a consent. While this is more likely when it is a former partner situation, there is no certainty that even the current engagement partner would be willing to sign a consent in all situations.

Based on our comments described above, we do not believe there is sufficient support that identification of the engagement partner would improve audit quality. However, should the Board continue to pursue this concept, there are other alternatives where the information could be disclosed. We believe the PCAOB's Form 2 would be the most practical and efficient place to provide this information. The Proposal notes concerns with the timing of Form 2, however, we believe providing selected information in Form 2, such as the identification of the partner, could be accelerated to a specified time after completion of the audit in order to provide this information more timely. Alternatively, the PCAOB could create another form that would provide this information on a timelier basis, such as prior to the proxy statement.

There may also be merit to requiring this information to be disclosed by audit committees in the audit committee report or included in the proxy statement. We recognize these alternatives would involve rulemaking by the SEC, however, note that public remarks by the SEC have indicated they would not be opposed to consideration of such an approach.

<u>Disclosure About Certain Other Participants in the Audit</u>

Other Auditors

We agree that disclosure of other auditors used in the course of the audit is meaningful information to users, when the percentage of that effort represents a significant amount of the overall audit effort. However, similar to the practical challenges of obtaining consents related to the identification of the audit engagement partner, we believe there are also challenges as it relates to disclosure of other auditors in the audit report. While the percentages of audit hours varies greatly from engagement to engagement, often times the other auditors are performing substantially less than fifty percent of the overall audit. Their role is often limited to certain procedures on divisions, plants or subsidiaries (referred to as subsidiary) and often times the other auditors have no knowledge of the operations of the issuer as a whole and the overall engagement risks, complexities and issues at the consolidated level, outside of the issues directly related to the subsidiary they are auditing. The other auditors currently issue a report or acknowledgement that they have completed their procedures, often at the direction of the issuer auditor, with no or limited knowledge outside of that subsidiary. We believe the legal implications of providing information on these auditors and requiring them to agree to provide a consent will have significant challenges and costs that do not exist today.

We believe another auditor providing a consent will require additional procedures beyond what these other auditors do in today's environment. As mentioned above, currently other auditors do not perform subsequent events procedures outside of their specific audit, since almost all are not mentioned by name in current audit reports; thus they do not review registration statements or other periodic filings that require a consent under today's rules. Should they be required to consent to their firm being included in a filing, we expect the firm would desire to review the registration statement or periodic filing in which it is being named and would require additional procedures at the issuer level in order to better understand the risk profile of the issuer, and based on that risk assessment may or may not provide a consent.

While firms may be able to obtain consents from many network firms (though this assumption has not been validated), it is more likely that non-network firms and firms that do not belong to a network may be unwilling to provide a consent.

We expect there will also be considerable logistical issues if the other auditors are willing to provide consents. Registration statements and periodic filings requiring consent are often time-sensitive and market sensitive, and even with the best planning, coordination of all of the procedures necessary in order to provide a consent timely can be challenging. Adding the requirement to obtain consents from all other auditors meeting the requirements contained in the Proposal will clearly present challenges and we are concerned that such challenges will affect the auditing professions ability to complete the necessary steps timely in order to provide consents and possibly impact capital raising efforts negatively. We also believe this would add significant cost to audits and to registration statements.

We also acknowledge that the Board raised the percentage of reporting from 3% to 5% in the Proposal. While we agree that 5% is an improvement from the previous threshold, we believe 10% would represent a threshold that is more meaningful to users and consistent with other thresholds for measuring significance.

As previously stated, we support identification of other auditors used in the audit (at the 10% threshold), however, based on the above comments believe that the auditor's report for that information presents too many practical issues to effectively meet this requirement. As a result we support including such information in Form 2. We believe this information could be provided on an accelerated basis if the Board believes that information needs to be timelier than the information required in Form 2 currently.

We understand the Board noted that in some instances other auditors represented a majority of the hours incurred in connection with an audit, some approaching almost 100% of the engagement hours. We agree there is merit to identifying the other auditors in the audit report in these extreme situations, and that the difficulties and challenges of obtaining a consent from them do not outweigh the benefits of knowing the other auditors involved in these circumstances. We recommend further analysis to determine the appropriate percentage of when the other auditor's involvement in the audit reaches a level of significance that this information becomes critical to understanding the firm that performed the majority of the audit work.

Other Persons Not Employed by the Auditor

The Proposal also requires disclose in the auditor's report whether the auditor used other persons not employed by the auditor in the conduct of the audit. It is not apparent from the Proposal how this data provides meaningful information to users, and whether an appropriate and consistent conclusion about the use of such persons can be achieved by disclosure of this information. For example should an audit firm engage a specialist to assist with auditing hard to value investments, it is not clear what benefit this provides to a user, and specifically how this information impacts their decision making. Audit firms consider many factors when deciding whether to bring or use specialized skills in-house or contract them externally. These decisions are not intended to, and do not detract from audit quality. We believe an outside expert can be as equally qualified as an internal expert. Without knowing the specific end objective for disclosing this type of information, it appears that this disclosure results in simply providing more information; not information that is necessary to a user's decision making process and could result in incorrect assumptions regarding audit quality. To illustrate this point, consider the following example:

An auditor conducts audits of several companies where the expertise of an actuary is necessary to form the proper audit conclusions. The firm maintains an actuary on staff who is a specialist in property and casualty insurance reserve developments and this actuary performs audit work on the firm's clients in the property and casualty insurance industry. The firm is engaged to audit a life insurance company. The firm's actuary is familiar with the concepts of life insurance reserve setting but has not worked in that setting for several years. In this instance, the firm decides to engage an actuary specializing in life insurance reserve setting to assist with the audit. Under the Proposal the firm would disclose the engagement of this specialist as an Other participant. However, if the firm elected to use its employee actuary, who may be sufficiently qualified but is less qualified than the third party, there would be no requirement to disclose. It is unclear how the financial statement user would interpret the disclosure of the use of the external life insurance reserve expert. The very nature of the requirement to disclose could lead the user to assume that naming an Other participant means that the firm is less qualified than a firm that would not name such an expert. This could also create the unintended incentive, in our example, for the firm to use the less experienced employee actuary to avoid naming the use of an Other in the audit report. We strongly believe disclosure of Others without clear objectives and a disclosure framework could lead to unwarranted, and perhaps factually opposite assumptions regarding audit quality.

Should the PCAOB continue to pursue disclosure of this information; similar to our views on the disclosures of other auditors, we believe the requirement to disclose other persons not employed by the auditor, for example: valuation specialists, would best be presented in Form 2, using a similar recommended threshold of 10%. In addition, arrangements with others not employed by the firm (others) are often based on a negotiated fee, versus billable hours, and the audit firm may not have the ability to negotiate identification of information by hours from Others. We believe the negotiated fee as a percentage of the total audit fee would be as informative as a percentage based on hours. Accordingly, we recommend the proposed rule allow for either method (hours or dollars) of calculating the percentage that Others participated in the audit, or allow for the dollar approach when hours information is not available.

Crowe Horwath LLP supports the PCAOB's efforts in striving to improve public company auditing standards and the due process to ensure proposed standards result in such improvement, mindful of cost benefit considerations and the avoidance of unintended consequences. We would be pleased to respond to any questions regarding our comments. Should you have any questions please contact James Dolinar at (630) 574-1649 or Michael Yates at (574) 236-7644.

Sincerely,

Crowe Horwath LLP

Crowe Horwath LLP

From: Jim Cusenza
To: Comments
Subject: Disclosure of Audit Engagement Partner in Audit Reports
Date: Thursday, January 30, 2014 4:41:35 PM

To Whom it May Concern:

I am a partner at a relatively small accounting firm in Michigan. We do a number of smaller governmental audits. The State does require an audit transmittal form accompany reports submitted indicating the audit partner. Our "auditors' report" is uncluttered with that information.

The quality control system is aimed at the firm, not individual members. By naming the partner there seems to be an objectionable inference that one partner's signature is better or more valuable than another.

I agree very much with the comments made by Cindy Fornelli in the recent Journal of Accountancy.

Best wishes,

Jim

Linda de Beer

Professor • CA (SA) • M.COM (TAX)
Independent Director and Corporate Governance Advisor

20 March 2014

Office of the Secretary
Public Company Accounting Oversight Board (PCAOB)
1666 K Street N.W.
Washington, D.C. 20006-2803

Email: comments@pcaobus.org

Reference: PCAOB RULEMAKING DOCKET MATTER NO. 29, *Improving Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*

Thank you for the opportunity to comment on this very important matter currently under consideration by the PCAOB.

As a South African, my interest in this matter might not be obvious to you. I have therefore included an abridged version of my curriculum vitae to this document, for your benefit. In short though, I would like to explain my interest by stating that my professional objective is to play a role in the quality of reporting at a South African and international level. I strongly believe that high quality financial reporting-, auditing- and corporate governance standards as well as well crafted and implemented laws and regulations contribute to investor confidence in companies and markets, which in turn enhances investment to the ultimate benefit of society.

In this very instance I have a grave concern that, if the PCAOB moves away from its earlier indications to mandate the naming the auditor in the auditor's report, it would not only put the United States out of step with many other jurisdictions in the world, but also put further pressure the already tainted credibility of the global auditing profession.

I am therefore strongly in support of the proposal of the PCAOB to require auditors to disclose in the auditor's report (1) the name of the engagement partner on the most recent period's audit; and (2) the names, locations, and extent of participation of other public accounting firms that took part in the audit and the locations and extent of participation of other persons not employed by the auditor who performed procedures on the audit.

We have had numerous discussions on auditor reporting at the Consultative Advisory Group (CAG) meetings of the International Auditing and Assurance Standards Board (IAASB), the equivalent to your SAC. This was the one area where the 30+ CAG member organizations and their representatives felt extremely strongly that naming the engagement partner in the auditor's report is extremely important to serve the public interest.

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I would also like to point out that 'identifying' the engagement partner through a practice number or other reference, without also including the individual's name, would certainly not be useful. This will require investors or other readers of the auditor's report to refer to another source in order to get to the engagement partner's name. I would not just create undue effort on the side of the reader, but also cause frustration and a perception that auditors avoid transparency.

I would like to provide a number of specific motivations for my support for the PCAOB proposal:

- The auditor is, in the first instance, the agent of the shareholders and is meant to be acting in the best interest of shareholders by reporting to them on the financial statements, which can be seen to be a proxy for acting in the public interest. It is therefore very important that auditors have to respond to the call from their 'clients', thus investor groups, to disclose the engagement partner's name. Users groups such of the CFA Institute and the International Corporate Governance Network (ICGN) have openly made strong statements, in CAG meetings and elsewhere, to call for such disclosure readily available on the face of the auditor's report.
- Furthermore, other professional bodies represented on the CAG, such as the International Actuarial Association and the International Valuation Standards Council have at numerous occasions pointed out that the individual members of these professions are required to disclose, not just the name of their professional firm, but also of the individual, on all reports issued. In addition, they also have to disclose the technical and ethical standards that they have to comply with, the latter which is not commonly disclosed by the auditing profession.
- If this matter is not addressed it will exacerbate the already negative perception that exist among user groups and the broader public that the auditing profession is unwilling to change and to enhance its transparency. The auditing profession is an important role player in the financial reporting supply chain. If the importance and relevance of the auditing profession is further tainted by more negative perceptions, it has reputational repercussions for all role players, auditors, regulators and standard setters alike.
- The practice of disclosing the engagement partner's name in the auditor's report has already been in use for quite some time in many other jurisdictions, including the European Union, China and South Africa. It is inconceivable that a significant economy, that often takes the lead in legislation and regulation, is out of step with the latest thinking, and more importantly the strong call from investor groups, in this regard. The IAASB is proposing similar requirements as part of its auditor reporting project.
- Even though it might be debatable if such disclosure directly positively impact audit quality on a larger scale, it will certainly enhance the sense of responsibility and accountability that is felt by an individual when signing is name on a public document. This is in addition to the enhancement of transparency which is a first step in building trust in the public eye.

I hope you find these comments useful and would and, in conclusion, I would like to thank you in advance for considering my comments. I will be following the outcome of your debates in this regard with a keen interest.

Yours sincerely

Linda de Beer

ABRIDGED CURRICULUM VITAE
LINDA DE BEER

Linda is an independent non-executive director, financial reporting and corporate governance advisor and part time professor at the School of Accountancy at the University of the Witwatersrand, in Johannesburg, South Africa.

She is a South African chartered accountant CA(SA) and holds a masters degree in taxation. She previously, inter alia, held the position of Senior Executive: Standards at the South African Institute of Chartered Accountants (SAICA) and as Financial Director at privately owned BEE investment holding company.

To this end, Linda currently holds the following positions and is involved in the following activities:

- Independent director on the boards of 3 company listed on the Johannesburg Stock Exchange (JSE) and 1 non-profit company board.

- Independent financial reporting and corporate governance advisor and trainer, mostly to directors on their roles and responsibilities. Training includes topics such as the King 3 Code on Corporate Governance in South Africa, the South African Companies Act, the role of audit committees and finance. Clients include the JSE Ltd and the Institute of Directors of Southern African.

- Chairman of the International Auditing and Assurance Standards Board's Consultative Advisory Group (CAG). The CAG is an independent advisory structure, representing more than 30 non-auditor and non-International Federation of Accountants (IFAC) member bodies, thus mainly regulators, investors and other users of the audit service (e.g. Basel, CFA Institute, European Commission, IOSCO, International Monetary Fund, International Corporate Governance Network and the World Bank) that advices the IAASB on its agenda and other strategic matters. Linda was elected by the CAG members as Chair in 2010 and unanimously re-elected for a 2nd term in 2013. Before this she represented the World Federation of Exchanges on the CAG.

- Chairman of the JSE's Financial Reporting Investigations Panel.

- Member of the King Committee on Corporate Governance in South Africa.

- Member of the JSE Limited Issuers' Advisory Committee, which advises the South African Stock Exchange on listings related matters.

- Member of the Committee for Auditing Standards of the Independent Regulatory Board for Auditors and the Financial Reporting Standards Council, representing the JSE.

- Part time professor in financial accounting and auditing at the School of Accounting at the University of the Witwatersrand.

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February 3, 2014

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 029.

Deloitte & Touche LLP ("D&T") is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the "PCAOB" or the "Board") on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* ("the reproposal"); PCAOB Release No. 2013-009; and PCAOB Rulemaking Docket Matter No. 029 (December 4, 2013).

OVERALL COMMENTS

We support transparency regarding the audit process, auditor responsibilities, and related quality controls in the interest of promoting the protection of investors and the effective functioning of the capital markets. The more information of value that auditors are able to provide to the users of financial statements, the greater the value and relevance audits will have to the capital markets. Additional transparency regarding the audit also stands to enhance investor confidence in the rigor of the independent audit process.

As a result, we are supportive of the objectives of the Board's reproposal (i.e., transparency and ease of obtaining information), and offer certain constructive suggestions in this letter geared toward ensuring that the final standards the Board adopts provide the related information in a manner that is:

- Timely;
- Useful and meaningful; and
- Readily accessible.[1]

Consistent with the above objectives and in the spirit of transparency, we are supportive of publicly disclosing the name of the engagement partner and specified information regarding the participation of certain other firms and persons involved in the audit. However, we are concerned with certain practical challenges and economic consequences of using the auditor's report[2] as the means of communication for this

[1] See PCAOB Release No. 2013-009, p. 2.
[2] This includes information that may be disclosed in an appendix immediately following the auditor's report that would be referenced in the auditor's report. See PCAOB Release No. 2013-009, p. 14.

information. In the section below entitled "Alternative Means of Disclosure," we discuss potential methods of disclosure that we believe meet the Board's transparency objectives in a form that is useful, meaningful, and readily accessible and mitigate the concerns discussed herein.

PRACTICAL CHALLENGES AND ECONOMIC CONSEQUENCES RELATED TO THE PROPOSED DISCLOSURES

The proposed requirements that engagement partner names and specified information about other participants in the audit be disclosed in the auditor's report present practical challenges and economic consequences, including, but not necessarily limited to, the following significant matters. We raise these issues not for the purpose of attempting to dissuade disclosure of the information outlined in the reproposal (we support such disclosure in the interest of transparency). Rather, we believe it is important to consider the implications of providing this disclosure through the auditor's report, when other viable means of disclosure are available.

- *Challenges associated with requirements for consents to be provided by the named engagement partner and each of the other named participants in the audit.*
    - We note the Board's assumption[3] that engagement partners and other participants in the audit named in the auditor's report would have to consent to the inclusion of their names in an auditor's report filed with, or included by reference in, another document filed under the Securities Act with the Securities and Exchange Commission ("SEC"), such as a registration statement. The filing of a registration statement (including amendments thereto) is often very time sensitive, with the optimal timing of the filing of the document being determined by the issuer and its underwriter based on many factors, including the market timing strategy. As a result, when auditors are requested to provide consents, there is typically a compressed time frame for the determination and performance of the necessary procedures to provide such consents. The process to obtain consents will become more complicated when consents are required from a greater number of parties (potentially including firms operating in multiple jurisdictions around the world), and it will become increasingly difficult to manage the process such that all necessary consents are provided concurrently and within the desired time frame.

      Underwriters of securities offerings may, in relation to the filing of the related registration statement, request separate "comfort letters"[4] from the engagement partner and one, more than one, or all of the other named participants in the audit. Requests for multiple comfort letters would add further complexity to an offering process, again placing additional pressure on the ability to meet an issuer's desired time frame for a filing.

      It is also possible that an issuer might not be able to obtain the necessary consents from all of the named parties. For example, there may be laws or regulations in other jurisdictions and other situations (e.g., the firm may no longer be in existence) that preclude named parties from providing the requested consent. As another example, a named engagement partner may no longer be available to provide the necessary consent or may be unable to do so in a timely manner. Such situations include instances in which the partner (1) is no longer with the firm

[3] See PCAOB Release No. 2013-009, p. 21.
[4] See PCAOB AU Section 634, *Letters for Underwriters and Certain Other Requesting Parties.*

(which may be due to resignation, retirement, or death), (2) has health or other issues that make him or her temporarily or permanently unavailable, or (3) has rotated off the audit engagement (i.e., a "predecessor partner"). The inevitable result of these circumstances would likely be a delay in the ability of an issuer to file annual reports, registration statements, and related amendments in the desired time frame, or potentially an inability to obtain the necessary consents. It is not clear from the Board's proposal how an issuer would resolve the situation when a named engagement partner or firm is not able to provide the necessary consent.

- Current PCAOB auditing standards and PCAOB and SEC independence rules do not address situations that would arise from the requirements in the reproposal. For example, PCAOB AU Section 711, *Filings Under Federal Securities Statutes*, does not contemplate the situation where a consent is requested of a firm named as an "other participant" in the auditor's report and the named firm did not perform a standalone audit and issue a separate report (e.g., the firm's procedures were limited to the performance of certain audit procedures as directed by the principal auditor). Therefore, it is not clear what procedures such a firm would need to perform prior to providing a consent. Similarly, PCAOB and SEC independence rules, as well as the PCAOB's auditing standards, do not address the provision of consents by predecessor partners. Accordingly, in the event the PCAOB proceeds to finalize the reproposal as written, such rules and standards would need to be clarified with respect to setting forth the procedures that would be appropriate and sufficient for a predecessor partner to perform in order to provide an individual consent, while at the same time remaining in compliance with independence rules regarding partner rotation.[5]

- *Challenges associated with the timing of providing the information in the auditor's report.*
  - Many of the practical challenges associated with obtaining consents discussed above would not be limited to registration statements filed at some point after the audit report has been issued. Many issuers have active shelf registration statements with annual reports being incorporated by reference when filed; accordingly, consents from the engagement partner and other named participants would have to be provided at the time the auditor's report is first issued. Addressing the need for such consents and estimating the extent of participation of other firms and persons would create additional time-consuming and potentially distracting activities that would need to be dealt with by the issuer and its auditor as the financial statements are being finalized and the audit engagement and related auditor's report are being completed.

- *Significant implications related to auditor liability.*
  - In addition to the practical challenges related to the requirement to obtain consents, the need for such consents gives rise to significant liability concerns (see further discussion of such concerns in the section below entitled "Increase in Auditor Liability").

Because of the challenges discussed above, we believe that the need to obtain consents from all parties named in an auditor's report could disrupt the timely issuance or reissuance of the auditor's report, thereby affecting the prompt dissemination of financial information to the capital markets and the ability

[5] In the event the PCAOB moves forward with the reproposal as written, prior to finalizing the rules we would encourage the Board to work with the SEC to effect the necessary changes to avoid issues regarding independence.

of issuers to raise capital in the most expeditious manner. While practical solutions could potentially address some of the difficulties related to the need to obtain consents, ultimately the need to obtain these consents would create additional processes and pressure during periods in which time is typically of the essence. Therefore, as stated above, if the proposal is to be finalized as drafted, we believe a regulatory solution would need to be identified that avoids the need to obtain consents. Given the other challenges of gathering the necessary information as the audit is being completed, we also believe there are alternative means that would provide for the disclosure of the desired information to investors and others in a timely manner and result in the information being gathered during a time frame that is not already compressed as a result of SEC filing deadlines.

INCREASE IN AUDITOR LIABILITY

We believe that the PCAOB's reproposal raises significant liability concerns with respect to the identification of both the engagement partner and other participants in the audit within the auditor's report. These stem in large measure from the assumption stated in the reproposal (which we have assumed to be the case for purposes of our analysis of the reproposal) that consents would be required from the named engagement partner and from the named other participants in the audit, thereby triggering potential liability for them under Section 11 of the Securities Act.

The reproposal states that the purpose is greater transparency for investors, and takes the position that the triggering of Section 11 liability is merely an incidental or manageable effect. There is a strong likelihood, however, that the presence of new names in the audit report will cause plaintiffs' attorneys to reflexively add those names to the list of defendants in a lawsuit, without regard to whether the underlying claims are actually meritorious. We believe that an increase of Section 11 liability (and of other types of liability that may result as well) is more than incidental — indeed, it is of significant consequence — and that there are alternatives to audit report disclosure that would provide the transparency sought while minimizing additional liability exposure. As discussed below, the substantial increase in litigation risk and resulting litigation cost that the reproposal would create, and the related consequences that may result, provide powerful reasons to select one of those alternatives.

Liability under Section 11 attaches to a defined class of defendants, including experts such as accountants who "prepare" or "certify" portions of the registration statement. Because any public offering of securities must be conducted by means of a registration statement, and because Form 10-Ks can also be incorporated by reference into a registration statement, Section 11 has a far-reaching impact. Moreover, unlike Section 10(b) of the 1934 Securities and Exchange Act, Section 11 does not require a plaintiff to prove causation or scienter. For these very reasons, notwithstanding the contention in the reproposal that Section 11 lawsuits against accounting firms are "relatively rare," Section 11 claims and litigation can carry great risk.

Additionally, while the reproposal suggests that participants' risk will also be limited under Section 10(b) and Rule 10b-5 because of the Supreme Court's decision in *Janus Capital Group, Inc. v. First Derivative Traders*, 131 S.Ct. 2296, 2302 (2011), we do not believe that is clear at this point. While *Janus* held that Section 10(b) liability was limited to the "maker" of the fraudulent statement, there will likely be new litigation over whether persons named in the audit report are "makers" of the statements in the report.

The consent filing requirement may also subject named foreign participants to U.S. jurisdiction that would otherwise not exist. Such foreign participants are unlikely to have performed any (or any significant) audit activities within the United States, and courts have previously found that there is not sufficient grounds even to assert personal jurisdiction over these participants. The filing of a Section 11 consent form with the SEC might be thought to vitiate an otherwise meritorious jurisdictional defense on various claims asserted in federal or state courts, even where there is no increased activity in the United States by the non U.S. participant.

Risks also exist under state law. For example, state law negligence and fraud claims are often asserted against accounting firms, including by bankruptcy trustees or receivers. Individual partners (and other participants in the audit) are not typically named as defendants in such lawsuits, but the identification of them in the auditor's report could change that. For example, plaintiffs may try to assert claims against individual partners under state blue sky laws (which in some cases may be broader than federal securities laws), or for aiding and abetting a securities law violation (as to which there is no private right of action under federal law). There may also be incremental legal risks for non U.S. firms arising from laws in jurisdictions outside the U.S.

The reproposal states that the impact from a written consent would be quite small, even if it leads to the naming of numerous additional defendants, on the theory that the liability of the additional parties is "coextensive" with that of the firm. This theory does not account for the substantial increase in litigation costs the reproposal would create. Multiplying defendants also multiplies the issues in litigation and the number of counsel involved. The engagement partner may require his or her own counsel; this is all the more likely in the case of other participants in the audit, who will inevitably need their own counsel and whose presence will likely require the resolution of difficult conflict of law issues across jurisdictions, discovery obligations of foreign defendants, and similar issues present in multistate and multinational litigation. If liability is "coextensive," as the reproposal argues, the substantial increase in litigation costs comes with no benefit to investors in terms of recoveries in litigation.

Even if liability was "coextensive," there would still be a significant personal impact on the individual partner of naming him or her as a defendant in a public litigation. For example, even if that partner is ultimately found not to be liable, status as a defendant in a multimillion or multibillion-dollar litigation can have significant unintended consequences.

ALTERNATIVE MEANS OF DISCLOSURE

Bearing in mind the need to provide investors with useful and meaningful information, as well as the unresolved issues surrounding consents and related potential legal liability concerns, we urge the PCAOB to consider alternative methods for the proposed transparency disclosures. We believe that the most feasible alternative is for the PCAOB to develop its own database populated with all the required information in the reproposal, including the name of the engagement partner and the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and the locations and extent of participation of other persons not employed by the auditor that took part in the audit (in accordance with the determined threshold).[6] Under this approach, registered firms, for example, could be required to:

- Initially report engagement partner names and other participants in the audit to the PCAOB on a new PCAOB form (initial reporting to be based on the most recently completed audit).
- Update such information at either the engagement documentation completion date under PCAOB Auditing Standard No. 3, *Audit Documentation*. (i.e., no later than 45 days after the report release date) or at another date; for example, on a quarterly basis for those audits completed during the previous quarter.

Under this approach, investors would then have a single repository to reference when looking for information pertaining to an audit firm or an engagement partner. Additional information, such as inspections and enforcement actions, are also readily available on the PCAOB website and could provide supplementary contextual information to the investor if needed. In fact, if such a database is structured to contain a repository of historical information, it may be more effective in accomplishing the Board's policy objectives than disclosure in the auditor's report. For example, if an investor had an interest in understanding the historical involvement of other independent public accounting firms on a particular engagement, or wanted to determine other engagements for which an individual served as the engagement partner, this information could be searched in a single database (as opposed to having to search through SEC filings to obtain the information). While we acknowledge that establishing this database would require time, effort, and cost on behalf of the PCAOB, we believe that the additional benefits to the investor are such that having reliable information in one location would justify the additional expenditures.

We also believe that the PCAOB's Form 2 report continues to remain a viable and appropriate option as originally proposed in *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*, PCAOB Release No. 2011-007; and PCAOB Rulemaking Docket Matter No. 029 (October 11, 2011). The Form 2 is already a mechanism for registered firms to disclose information to the public and adapting it to provide the transparency information required by the reproposal would be a logical next step. Amendments to the Form 2 could be filed on a regular basis, such as quarterly (or even more frequently as audits are completed), so as to provide the timely updates needed for the investor community. In addition, the Form 2 information on the PCAOB's website could be formatted so that it is more easily searchable.

Both these alternatives would provide the requested information in a timely, useful, and meaningful way, while alleviating the need for named parties to provide consents. Further, to ensure that the information provided through these alternatives is easily accessible, we recommend consideration be given to adding instructions in the auditor's report as to where the information about the engagement

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[6] See D&T letter to the PCAOB dated December 11, 2013, regarding the discussion relating to the alternatives to the disclosure of audit tenure. We believe auditor tenure information could also be included in the potential PCAOB database. The D&T letter was in response to *Proposed Auditing Standards — The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*; *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report*; and *Related Amendments to PCAOB Standards*; PCAOB Release No. 2013-005; and PCAOB Rulemaking Docket Matter No. 034 (August 13, 2013).

partner and other participants in the audit (and potentially auditor tenure[7]) is located, as long as it is certain that such instructions do not trigger a requirement to obtain consents.

OTHER MATTERS

Considerations for Disclosing Firms with Relationships to Registered Firms.

The Board's reproposal would require disclosure in the auditor's report of "the name, location, and the extent of participation (as a percentage of the total audit hours) of certain other independent public accounting firms,"[8] and information regarding other participants, including certain entities that have a relationship with the accounting firm issuing the auditor's report.[9] Specifically, the Board states: "Disclosure of entities that are *distinct from* the firm that issues the report in the audit would be consistent with the overall objective of the amendments the Board is reproposing and is an application of the requirement to disclose other participants in the audit notwithstanding any network affiliation or other relationship."[10]

We understand the interest of the Board in disclosure regarding other participants in the audit that are "distinct from" the registered firm that issues the audit report, and we understand that separate accounting firms operating in different jurisdictions as part of the same global network would have to be disclosed as other participants given that they are distinct from the registered firm. We believe that consistent with the objective of providing information relevant to and understandable by investors, and to avoid causing confusion regarding who is responsible for the audit, the reproposal should be interpreted to not require disclosure regarding subsidiaries of or other entities controlled by the registered firm issuing the audit report, or entities that are subject to common control (e.g., sister entities under common control with the registered firm that provide tax, valuation, or other assistance to the registered firm as part of the audit). As a result of the relationship among these entities and the registered firm, the personnel from these entities function as members of the registered firm's audit engagement team, their work is reviewed by the registered firm's engagement team, and the working papers prepared by personnel from these other entities are maintained and archived by the registered firm as part of the engagement audit documentation. Indeed, the PCAOB's inspections already consider the work of these entities to the extent that they participate in the registered firm's audits. As such, those entities are not, for the purposes of audit report transparency, "distinct from" the registered firm issuing the audit report and disclosure regarding them would not provide meaningful incremental information to investors or further the goal of transparency. There is diversity in the organization of different accounting firms, reflecting, in part, historical structuring and risk planning. The manner in which an organization, of which the registered firm issuing the audit report is a part, has elected to structure itself is not a reason to disclose information regarding other components of the organization.

We believe the guidance the Board has provided in relation to off-shore entities is helpful.[11] Specifically, the Board states that where "offshored work is performed by another office of the same accounting firm," information regarding that office need not be disclosed.[12] Given the discussion

[7] See footnote 6.
[8] See PCAOB Release No. 2013-009, p. 10.
[9] See PCAOB Release No. 2013-009, p. 16–17, A3-12.
[10] See PCAOB Release No. 2013-009, p. 16–17 (emphasis added).
[11] See PCAOB Release No. 2013-009, p. A3-13.
[12] See PCAOB Release No. 2013-009, p. 16.

above, in our view, under this approach disclosure should not be required for an entity outside the U.S. that is controlled by the registered firm issuing the audit report. Such an entity functions, for purposes of audit report transparency, as an "office" of the registered firm even if technically it exists as a legal entity. We do not believe the existence as a legal entity impacts the work performed or results in any useful information being provided for investors.[13] Consistent with our interpretation of the scope of the re-proposed rules described in the previous paragraph, disclosure regarding such an entity would not provide the useful information that the Board seeks to make available.

Applicability to Audits of Emerging Growth Companies and Brokers and Dealers.
In the reproposal, the Board is soliciting feedback on the applicability of the final rules to audits of emerging growth companies (EGCs). We do not believe there is a basis for exempting audits of EGCs from the requirements of the final standards, as we believe investors of these companies would have similar interest in the additional information.

On the other hand, we do believe there is a basis for excluding these disclosure requirements in the context of audits of non-issuer broker dealers. As explained previously by the PCAOB,[14] there are no issuers among the 4,230 brokers and dealers that filed annual audited financial statements with the SEC and only 9% are subsidiaries of issuers. Of the remaining brokers and dealers, approximately 90% are owned by an individual or an entity that owns more than 50%, and approximately 75% have five or fewer owners. Additionally, almost 45% of brokers and dealers file statements of financial condition separately from the balance of the financial statements to obtain confidential treatment of their filings, including the full set of financial statements. For these brokers and dealers, only the auditor's report on the statement of financial condition would be available to the public, and the auditor's report on the full set of financial statements would be confidential and not available to the public. While applying the disclosure requirements of the reproposal to non-issuer brokers and dealers would be possible, given (1) the closely held nature of many broker dealers, (2) the fact that in many instances, only limited financial information is available publicly, and (3) what appears in most cases to be a limited number of users of these financial statements, we do not believe that there would be corresponding value in providing the name of the engagement partner or the names of other accounting firms and other persons not employed by the auditor.

* * *

D&T appreciates the opportunity to provide our perspectives on these important topics. Our comments are intended to assist the PCAOB in analyzing the relevant issues and potential effects of the reproposal. We encourage the PCAOB to engage in active and transparent dialogue with commenters as the reproposal is evaluated and changes are considered. If you have any questions or would like to discuss these issues further, please contact Joseph Ucuzoglu at 202-879-3109, William Platt at 203-761-3755, or Megan Zietsman at 203-761-3142.

Very truly yours,

Deloitte + Touche LLP

[13] See "Statement on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits" by Board Member Jay D. Hanson, Dec. 4, 2013.
[14] See PCAOB Release No. 2013-005, Appendix 5.

cc: James R. Doty, PCAOB Chairman
Lewis H. Ferguson, PCAOB Member
Jeanette M. Franzel, PCAOB Member
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March 12, 2014

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Reference: Request for Public Comment: *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*; PCAOB Release No. 2013-009; PCAOB Rulemaking Docket Matter No. 29

Dear Members of the Board:

EisnerAmper LLP (EisnerAmper) is pleased to comment on the Public Company Accounting Oversight Board's (PCAOB) concept release on disclosure in the auditor's report of certain participants in the audit. We provide audit, accounting, and tax services, as well as other advisory services to a broad range of clients across many industries in the New York, New Jersey, and Pennsylvania corridor and California. EisnerAmper is a PCAOB Independent Registered Public Accounting Firm with approximately 80 issuer audit clients.

We commend the PCAOB's effort to improve the transparency of public company audits and audit quality, and appreciate the opportunity to provide the following comments on the Proposed Auditing Standards.

As a result of our review of the proposed standards we have summarized our overall views below.

Disclosure of the Name of the Engagement Partner

- The engagement partner has an important role in an audit; however, identification of the name of the engagement partner puts undue emphasis on only that role. Almost all audits are a group effort conducted by teams of individuals. The engagement partner is the top of the engagement team pyramid but is supported by a much bigger base below. It is true that the engagement partner usually has the most direct relationship and serves as the primary interface with the audit committee and senior management, however, the staff on the audit often have the most direct relationship with the rest of management, the books and records and details of transactions. They are the first line and an important part of the audit process. Also integral in the audit is the firm methodology and audit model and the engagement quality control review to just name a few. All of these components make up the audit issued by the firm and not just the work of the individual engagement partner.

- The Board states in the proposal that based on more than ten years of oversight that the quality of individual audit engagements varies even within the same firm operating under firm-wide quality control systems. We agree with that statement. We would also agree that the quality of individual audit engagements may vary even among the same engagement partner. This is because that even though the role of the engagement partner responsible for the engagement is an important factor, there are many other factors that can contribute to that variability. We believe that the engagement partner only serves as a representative of the team. By including the name of the engagement partner in the audit report to encourage investors to "track" or "rate" an engagement partner's performance implies that the engagement partner's role is the only factor that investors should consider since they don't have access to any other contributing factors which can result in inappropriate conclusions about the engagement partner.

- The Board stated that many investors as well as some commenters believe that disclosing the name of the engagement partner in the audit report would prompt engagement partners to perform their duties with a heightened sense of accountability to the various users of the auditor's report. We respectfully disagree with that position and we encourage the Board to seek additional feedback from other communities, such as preparers, users and academia. We believe that engagement partners of issuer audits are well aware of their responsibilities and accountability in their role as the person with final authority and responsibility for the audit when they "sign off" to release the audit report. We do not believe that including their name in the audit report would increase or change that sense of accountability or responsibility since we believe that sense is already very high, therefore, it would not result in any incremental improvement in audit quality.

- One of the benefits to disclosing the name of the engagement partner per the proposal is that it would enable investors to research the number, size, and nature of companies and industries in which the partner served as engagement partner. Despite any perceived benefits of such research, it could only provide a very limited glimpse into the engagement partner's experience. A partner may have significant relevant experience on private companies, as the engagement quality control reviewer, obtained at levels below engagement partner, working in industry etc. that is not available to investors. By only considering an engagement partner's experience as the lead engagement partner on only public company audits, investors may come to inaccurate conclusions about the partner and question the audit committee's selection when in all likelihood, the audit committee is aware of the engagement partner's full experience.

Disclosure About Certain Other Participants in the Audit

- Currently, under PCAOB AU 543, the principal auditor makes the decision to make reference to the use of another auditor or to assume responsibility for the work of another auditor. When the principal auditor makes reference in their audit report to the report of another auditor, it is clear to the investors that the responsibility for the audit is divided. At the 2007 AICPA

National Conference on Current SEC and PCAOB Developments, Stephanie Hunsaker made the following remarks: "*Some registrants choose to include a reference to the use of a valuation firm or other expert in their periodic reports. There is no requirement under the '34 Act to obtain a consent from an expert. However, in cases where a registrant chooses to make reference to the use of a valuation firm or other expert in a periodic report, the staff expects the expert to be named. The rationale for naming the expert in the periodic report, even if no consent is required, is because management is referring to the use of an expert, and appears to be transferring some, or perhaps all, of the responsibility for an item in their financial statements. Investors who trade in the registrant's securities should know who that expert is. Of course, the registrant could simply choose to not make reference to the expert at all, and thus take full responsibility for the valuation.*" Based on these remarks, the conclusion is that if you are making reference to another, the appearance is that you are transferring some responsibility and if you are taking full responsibility, you should not make any reference to another. The Board's proposal to disclose in the auditor's report the name of the other auditor even though the principal auditor is assuming full responsibility for the work of the other auditor appears to be inconsistent with the above remarks. We are concerned that in situations when the principal auditor has decided to assume the responsibility for the work of the other auditor, the proposed naming of the other auditor in the audit report, would be misleading to any users that the principal auditor appears to discharge some of their responsibility to the other auditor. The reason the name of the other auditor is not currently disclosed under existing standards is because the principal auditor is ultimately taking full responsibility for the other auditor's work.

- The reproposal requires disclosure about other participants in the audit using a disclosure threshold of 5% of total audit hours. We believe this threshold is too low and suggest that a higher threshold (10% or more) may be a more acceptable level if the Board goes through with the proposal. A frequent quantitative rule of thumb when trying to determine whether something is immaterial is 5%. Without considering qualitative factors, 5% and below is usually considered immaterial. To illustrate using audit hours for a smaller issuer, if an issuer audit takes 1,000 hours to complete, a 5% threshold would be the use of another auditor for at least 50 hours which does not seem to be significant enough to be important to an investor.

- Throughout the proposal, the Board cites several examples of audit failures and non-compliance with the PCAOB AU 543 *Part of Audit Performed by Other Independent Auditors* standard as the reason why disclosure of certain other participants in the audit is needed since the disclosure would expose and therefore discourage such practices. The use of other auditors can be a very effective and efficient way to audit many issuers, especially companies with various locations. If the Use of Other Auditors standard is not being applied correctly or consistently, we suggest that more guidance or changes in that standard would be more effective at correcting the deficiencies instead of trying to correct it by changes to the reporting standards.

Consents

- We agree with the Board's assumption that engagement partners and participating accounting firms named in an auditor's report would have to consent to the inclusion of their names in an auditor's report filed with or incorporated by reference in another document filed under the Securities Act. We have several concerns relating to obtaining these consents:
    - The logistics of obtaining these consents all dated concurrently from an increased list of individuals and firms will absolutely have an impact on the timeliness of issuer's filings.
    - In the reproposal the Board states that requiring the consents would not change the performance obligation of any other participant in the audit. However, we respectfully disagree with that position. We expect that if another auditor audited the financial statements of a subsidiary, division, component etc. and that other auditor is now named in the auditor's report and needs to consent to the inclusion of their name, that other auditor would want to become more knowledgeable about the rest of the issuer that they were not involved in during the course of their work. At a minimum, the other auditor would need to follow PCAOB AU 550 *Other Information in Documents Containing Audited Financial Statements* which requires that the auditor read the entire document and consider if such other information, or the manner of its presentation, is materially inconsistent with the financial statements they audited. They would also need to perform updating procedures to update their audit report date to the consent date. This would be incremental work and would definitely increase their time on the engagement and therefore increase the issuer's audit costs. It would also impact the ability to timely file documents.

Thank you for the opportunity to comment. We are available to discuss our comments at your convenience if you require additional information.

Respectively submitted,

EisnerAmper LLP

EisnerAmper LLP

Building a better
working world

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Phoebe W. Brown, Secretary
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

12 February 2014

PCAOB Rulemaking Docket Matter No. 029
Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Dear Ms. Brown:

Ernst & Young LLP (EY) is pleased to comment on the proposed amendments (the Proposed Amendments or the Proposal) to the Auditing Standards of the Public Company Accounting Oversight Board (PCAOB or Board) aimed at improving the transparency of audits. Our global organization, Ernst & Young Global Limited, joins in these comments which, where applicable, are broadly aligned to its response to the International Auditing and Assurance Standards Board (IAASB) exposure draft *Reporting on audited financial statements: Proposed new and revised International Standards on Auditing (ISAs)*.

We support the PCAOB's efforts to enhance transparency about the auditor's role and responsibilities, including the PCAOB's initiative to revise the auditor's report to provide investors and other financial statement users with information on matters that the auditor considered to be most important to the audit. We continue to support the identification of accounting firms that have a significant role in the execution of the audit and while we believe such information may be useful to investors and other financial statement users, we believe this information should be provided outside of the auditor's report.

However, as we have previously commented, we do not support identifying the engagement partner in the audit report or in a public filing with the PCAOB. In our view, identifying the engagement partner will result in operational challenges, as a result of legal requirements in connection with public offerings that will, of necessity, increase the costs, complexity and amount of time required for a company to access the capital markets, but will not provide meaningful additional information to investors that will offset such costs and challenges. We also believe that this proposal will not improve audit quality and will likely have potentially negative effects on the profession. More importantly, the Proposal appears to send a message that is inconsistent with an appropriate focus on firmwide accountability with respect to audits and audit quality. The execution of an effective audit is a collective effort that can involve many individuals and depends on a variety of factors. In the PCAOB's inspections of our firm, there is appropriate focus on the various elements of our system of quality control and the many factors that influence audit quality overall. We also note the myriad of metrics and engagement components being evaluated as part of the Board's Audit Quality Indicators (AQI) project. The AQI project highlights the numerous factors contributing to the execution of a quality audit by a firm, many of which extend beyond the control of the engagement partner. We commend the Board on its AQI project and its recognition of the many different factors — across a firm or network of firms — important to the execution of a quality audit. At the same time, we believe that a focus on the identification of the engagement partner may send the opposite signal, and some may inappropriately infer that one person is the key to the execution of a quality audit. This detracts from the important focus on firmwide responsibility.

We believe the proposed identification of the engagement partner is not a constructive concept in view of (1) the uncertain usefulness of this information to financial statement users; (2) the practical challenges that would be created, particularly if the identification is included in the auditor's report and consents are required pursuant to the Securities Act of 1933; and (3) the array of likely harmful consequences to the profession that we believe would result. Accordingly, we recommend the Board drop this aspect of the Proposal.

With respect to the specific consent requirements, the likely operational and liability implications are far more significant than those described in the Proposing Release. If the Board decides to proceed with all elements of the Proposal, we strongly believe that the names of the engagement partner and the other participants would need to be provided outside of the auditor's report, such as in a revised Form 2 filing, to address the many challenges otherwise created by the need for consents.

Engagement partner identification

Inappropriate focus on the partner rather than the firm

We believe identifying the partner does not and will not provide insight into the partner's experiences and relevant skills or the quality of the overall engagement team or the audit itself. The Proposing Release explains that, over time, databases or other sources of information may be developed that will contain additional information about the partner, which would be useful to investors. For example, the Proposing Release states that various sources of information may be created to inform investors whether a particular partner has been associated with past restatements, going concern opinions or private litigation. We question whether the providers or gatherers of this information would have the necessary knowledge or context to appropriately and fairly evaluate such events and accurately depict a partner's competence or diligence. There is a risk that the collection of such data (and whatever is implied by, or inferred from it) will be incomplete and without appropriate context. More importantly, such information has the potential to be misleading and harmful.

Along these lines, the Proposed Amendments discuss the possible formation of "star" ratings in the marketplace after a sufficient amount of data on partners is collected. Rating partners as "stars" would place inappropriate emphasis on the engagement partner, as opposed to the firm and the team as a whole. It is certainly true that the engagement partner leads the engagement team, but, as we noted above, an audit opinion is issued by the firm, not an individual partner, for a specific reason: the execution of an effective audit involves the collaborative efforts of many individuals and must be viewed as the overall undertaking of the firm. While the engagement partner clearly has a significant and undeniably important role, there are many other people with critical responsibilities, such as the engagement quality reviewer, the firm's technical resources and other specialists, and many non-partner-level auditors.

In addition, there are many important elements of an audit that are established and monitored at a firmwide or network level, such as the audit methodology employed, the tools to conduct the audit, the nature and level of firm resources, the hiring and retention of capable talent, training programs, consultation policies and many others. Identification of, and related focus on, the engagement partner (and the concomitant development of "star" ratings) would send a message that is inconsistent with how we view and evaluate the execution of an audit. This concern should not be construed as a lack of focus on audit partner accountability for quality, which we believe is an important component of our system of quality control. Accountability is a key area of focus for us, and we believe audit partners (through internal and external inspection activities and other means) are already highly accountable.

The Proposal also seems to discount, in large measure, the role of audit committees in selecting the individuals to conduct audits of public companies. Audit committees, which have audit oversight responsibilities under the Sarbanes-Oxley Act, spend considerable time evaluating the qualifications of the audit firm, as well as the skills and experiences of the partners and other engagement team members working on the audit. The audit committee is given extensive information about the engagement partner's qualifications and experiences and typically interviews a number of partners before approving the selection of the engagement partner to lead the company's audit. Based on that information, the audit committee determines whether the partner is capable of leading the audit. These decisions involve a thoughtful process and the evaluation of background information such as technical proficiency or industry experience, a process that cannot be replicated by an investor based on the identification of a partner's name.

Consent requirements — liability concerns

The consent requirement will give rise to significant liability concerns. The Proposing Release discusses the liability issue and notes "that any possible increases in a named engagement partner's or participating accounting firm's exposure to liability should be limited and that the potential risk of such an increase would be justified by the potential benefits to investors and other financial statement users of greater transparency."[1] We believe, however, that the risks are not limited and that should the Board decide to move forward with this proposal, it can achieve the same transparency objectives without creating these additional risks.

The requirement that a consent be provided by an individual engagement partner would expose him or her to liability under Section 11 of the Securities Act of 1933, which provides for claims against "every accountant" who "has with his consent been named" as "having prepared or certified" any part of a registration statement or any report used in a registration. This would be an extraordinary change in the current liability regime. Section 11 liability is the most onerous liability provision in the federal securities laws. The leading securities law treatise refers to it as the "bête noire" of the securities laws.[2] Multi-billion dollar legal claims have been based on it and its extension to additional capital market participants would be a major development.

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1 From page 21 of the Proposing Release

2 Loss, Seligman & Paredes, Securities Regulation, § 11.c.2, Aspen Publishers (2013)

The Proposing Release observes that partners should not be concerned about this newly created liability because the accounting firm itself would indemnify the partner for any individual liability and that overall costs would not increase. This overlooks at least three significant issues.

First, at the very least, the addition of defendants in any litigation leads to an increase in litigation costs because each defendant may need separate legal counsel, and additional pre-trial discovery and pre-trial motions are likely to ensue.

Second, it is by no means certain that an accounting firm could fully indemnify a partner who is found liable under Section 11. As the Proposing Release notes (see footnote 50, page 22), Section 14 of the Securities Act prohibits the waiver of compliance with the Act, and an indemnity might constitute such a waiver. At the very least, the imposition of Section 11 liability, coupled with uncertainty over the availability of an indemnity, would create a challenging state of affairs for audit partners being asked to sign a consent (a state of affairs that, it might be noted, has never been extended to attorneys, notwithstanding their substantial and important role in the securities registration process).

Third, the Board seems to assume that every accounting firm would in all instances be capable of indemnifying its partners. But that may not always be the case.

We should also note that it is by no means certain that the named partner would easily avoid Securities Exchange Act of 1934 liability under Section 10(b) and Rule 10b-5, notwithstanding the Board's conclusion to the contrary. Under the Supreme Court's decision in *Janus Capital Group, Inc. v. First Derivative Traders*, 131 S. Ct. 2296, 2302 (2011), a person cannot be sued under Section 10(b) unless he or she "makes" an allegedly fraudulent statement. The case law construing *Janus* is still developing, and based on the placement of the partner's name in close proximity to the name of the signing firm, coupled with the consent, a plaintiff might allege that the partner did make the challenged statement.

The consent requirement might also aggravate existing liability concerns under state law. Accounting firms such as ours often face claims brought in state court by lenders, bankruptcy or litigation trustees, and others alleging negligence, negligent misrepresentation, fraud or other misconduct in connection with the issuance of an audit opinion. Individual partners are generally not named as defendants in these lawsuits, but linking the partner's name specifically to the audit report may change this. Plaintiffs may also conclude that naming individual partners as defendants would provide them additional leverage for purposes of settlement, would make it easier to obtain discovery from the partner and may provide other tactical advantages.[3] A partner-defendant may believe that it is important to his personal and professional life that a case be settled quickly, potentially increasing the cost of a settlement.

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3 At the PCAOB's public meeting on 11 October 2011, Chairman Doty noted that auditors of issuers in the EU are required to personally sign the audit opinions, and he questioned why the rules in the US should be different. But we submit that the litigation environments in the US and Europe are very different. Lawsuits against auditors are brought in the US much more often. We respect the fact that a requirement for audit partners to sign opinions exists in other countries. However, we do not believe those precedents should be controlling relative to a decision on this concept in the U.S., particularly in view of the significantly different legal environments. In Ernst & Young Global Limited's response to the IAASB on the disclosure of the name of the engagement partner, it did not support an international requirement for disclosure of the engagement partner's name in an auditor's report as it did not believe it is necessary or adds to the quality of the audit.

In this regard, as we discussed in our previous comment letter, the naming of an individual partner as a defendant, particularly in a Section 11 lawsuit in which damages claims could be in the billions of dollars, is likely to have a devastating effect on a partner personally. The ability of a partner to obtain a mortgage loan, to get his or her accounting license renewed, or to engage in other activities may be impaired while the litigation is pending. And the consequences may be long-lasting. In an age of immediate internet search capability, the ability of an individual partner to overcome the negative effects of litigation (including frivolous suits and cases won by the defendant auditor) could be challenging because the partner's livelihood depends on his or her professional reputation.

Consent requirements — operational difficulties

We raise the liability issues stemming from the consent requirements in large part because of the operational difficulties that will result. For example, a former partner may be unable to sign a consent after his/her departure from the firm (through retirement or otherwise). If the partner moves to another auditing firm, there could be numerous legal issues associated with signing a consent, including the terms of the partner's new employment and client confidentiality issues.

Problems also could arise if a lead audit partner[4] is required to sign a consent after rotating off the audit as required by the Sarbanes-Oxley Act and SEC independence rules (i.e., the partner has completed his or her five years of service on an engagement, and a consent is required prior to completion of the subsequent year's audit). EY's policies and procedures require that certain post-report review procedures be performed through the date of filing a registration statement and the effective date of such registration statement (or as close thereto as reasonably practicable) in order to satisfy Section 11 due diligence requirements. However, a lead audit partner who has completed his or her five years of service would be in a time-out period under the SEC independence rules. This means he or she would not be permitted to participate in the completion of the required procedures and therefore would not be in a position to sign a consent. We believe that requiring the lead audit partner in this situation to sign a consent also requires that partner to oversee and be responsible for the performance of certain post-report review procedures during his or her time-out period. Those activities would be inconsistent with the SEC independence rules on partner rotation in Regulation S-X, Rule 2-01(c)(6) and could also delay the start of the time-out period for the lead audit partner unless clarification is provided by the PCAOB and SEC.

Assuming these challenges could be overcome, having a partner who has taken on other responsibilities within the firm, possibly in other regions or countries, to be on call to perform appropriate due diligence procedures and issue consents, within the very short time periods provided by issuers in this context, would be impractical. These challenges could result, at the very least, in increased time, effort and cost of the registration process, which could create timing delays and increased costs for issuers.

Other effects on partners and the profession

We also believe that if this Proposal were adopted and audit partner star ratings were developed, the profession as a whole would be negatively affected. With the Proposal's contemplated development of databases that would track engagement partner history and match names to specific events, it could

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4 As defined in Regulation S-X, Rule 2-01(f)(7)(ii)(A).

be much harder for certain partners to assume the responsibility of signing partner on public company audits. It is possible that some audit committees might prefer not to have to explain why a new signing partner does not have a database history. This could potentially steer some audit committees away from an otherwise qualified partner, who may have served as a non-signing partner on a number of public engagements or as a signing partner on private company audits. This could be harmful to the profession's ability to attract and develop audit talent and pose challenges to the ongoing staffing at the partner level of public company audits.

Partners may also find themselves being negatively affected and held accountable for situations that are beyond their control, or may in actuality be evidence of the partner's fortitude in dealing with difficult client situations. For example, if a company restated its financial statements or the audit firm issued an audit report identifying a material weakness or including a going concern explanatory paragraph, the market would be left to determine whether these events should reflect favorably or unfavorably on the partner. Moreover, not all restatements are the same. As the Board knows, there can be many different reasons (and root causes) behind a restatement. In the context of reasonable assurance, some accounting errors will arise and not be detected through an audit conducted fully in accordance with PCAOB standards. In certain cases, a restatement will result from a new partner challenging the legacy accounting conclusion employed by an entity. Some restatements occur as a result of changes in interpretations by the SEC staff. In other cases the restatement may relate to a matter that should have been previously discovered through the audit process and the audit partner should be considered partially responsible.

The contemplated databases will be unlikely to be able to determine the root cause(s) of a restatement and the potential responsibility of the current or former engagement partner. Black marks could be assigned that will not be consistent with, or be an appropriate measure of, a specific partner's performance or focus on audit quality. As a result, the Proposed Amendments may negatively affect individuals who executed their work to high standards. This reality will hurt the profession's ability to retain talented individuals who, as was previously described, already feel highly accountable for audit quality and the types of events noted above.

The profession is in continuous need of skilled auditors. The issues discussed above will likely make the profession less attractive to new entrants. Such issues may lead some persons already in the profession to question whether continued participation is worth the increased risks. Both dynamics could lead to a decrease in audit quality over the longer-term.

Identification of other participants in the audit

We continue to support the goal of providing greater transparency about other participants in the audit and are pleased that the Proposed Amendments incorporate certain suggestions that we and others made to somewhat reduce the administrative burden associated with capturing and reporting this information. However, given the position expressed by the PCAOB in the Proposal that a written consent would be required from the named other participants, we do not support including such information in the auditor's report.

For the same reasons discussed above with respect to an individual partner, the consent requirement would expose the named firms to increased legal liability and litigation costs. Litigation costs would likely increase significantly if multiple accounting firms were named as defendants (as they surely would be if the Section 7 written consent were required). Each firm would likely need to hire its own legal counsel, and such a lawsuit would likely lead to difficult disputes over each named firm's level of responsibility. Courts would likely need to determine the relative responsibility of each defendant and possibly resolve difficult jurisdictional issues involving non-US accounting firms. In this regard, the consent requirement may cause concern among foreign firms about being drawn into US litigation, which until now they have largely avoided.

The consent requirement would also likely create significant practical challenges for issuers in obtaining consents from numerous other firms, even network firms (especially due to the proposed threshold for being named in the auditor's report being lower than the 20% threshold for "substantial role firms"). While the Board believes that "the requirement to file a consent does not change the work the auditor must do,"[5] in fact, each firm would have to present its own due diligence defense under Section 11 and duplication of procedures would likely ensue, increasing overall effort, time and costs. For example, standard practice today is that only the signing audit firm reads the registration statement before filing. Under the Proposed Amendments, it is likely that a participating firm would not consent to being named in the auditor's report to be included or incorporated by reference in a registration statement without also reading the registration statement and performing additional procedures (e.g., subsequent event type procedures, obtaining legal letters, obtaining letters of representations). This could drive numerous firms to perform the same or similar procedures. This would lead to increased costs and would be time-consuming, resulting in an increase in the amount of lead time necessary for companies to raise money in the market. This challenge would exist even in a globally integrated organization such as ours. We would expect that less-integrated organizations would have significantly more issues in this regard.[6]

To estimate the effect of these requirements, we performed an informal survey of a group of our large issuer audit teams and found that approximately 85% of companies currently give us 15 days or less of lead time to file our consent when registering additional debt or equity (approximately 25% give us five or fewer days). At the 5% threshold reflected in the Proposal, this same survey revealed that in approximately 20% of these audits, more than three firms would be required to provide a consent. At a threshold of 10%, consents would be required by more than three firms in approximately 5% of the audits. As previously noted, updated subsequent event procedures are required to be completed as of the date of filing and effectiveness of a registration statement. We would expect that coordination of this effort would result in additional time being required to obtain consents, causing potential delays in an issuer's ability to raise capital.

These challenges would not increase overall audit quality but would duplicate procedures and increase costs. The Proposal does not sufficiently reflect an assessment of such costs.

[5] From pages 23 and 24 of the Proposing Release

[6] The same issue under Section 10(b) discussed above with respect to individual partners would also exist for other named accounting firms. Indeed, plaintiffs' counsel have tried in many lawsuits to extend liability from a signing firm to other firms in a global organization or to the global organization itself; including the names of other network member firms in the audit opinion would likely add grist to this litigation mill.

Alternatives to identification in the auditor's report, and a reasonable threshold

As discussed, we support the identification of other participants but do not support identification of the engagement partner name. If the Board chooses to move forward with this Proposal, we recommend that any such information should be provided outside of the auditor's report. Firms could be required to provide such information in individual filings with the PCAOB on a periodic basis within a reasonable period of time after the completion of an audit. If such an approach were adopted, we also suggest additional information be included regarding the relationship between the lead audit firm and other participants in an effort to provide financial statement users a greater understanding of this important dynamic. We believe that the proposed threshold of identifying other participants with audit hours of 5% or more is too low. A threshold of 10% will be more practical and still achieve the Board's increased transparency objectives in this area. Further, we suggest that the ranges be increased to increments of 20%, which we believe are practical and give interested parties a fair frame of reference of other participants in the audit. In addition, those firms that play a "substantial role" in the engagement (as defined by the PCAOB) could be so identified.

We discuss these points below:

The Board's principal objection to using Form 2 as an alternative to identification of these parties in the auditor's report involves the timeliness of any information that is provided in Form 2. We think this concern can be addressed by a rule that establishes a separate reporting form that could be filed with the PCAOB on a periodic basis within a reasonable period of time after the completion of an audit.

We believe that this would be the best method of providing this information to investors. It would allow timely and relevant information to be provided but would avoid the numerous complications resulting from the consent requirements. The costs of implementing a mechanism for timely reporting would not require significant additional effort or cost beyond the cost associated with collecting the information (especially if the threshold were raised higher as noted below).

The Board suggests that there are two other disadvantages to this approach: Financial statement users would have to search in two regulator websites (SEC and PCAOB) to get the full picture, and the PCAOB would incur additional costs to administer such a system. We believe that these concerns are minor compared with the significant practical challenges and liability concerns that would result from the disclosure being included in the auditor's report. Currently, financial statement users review a large variety of sources when making decisions. Investors combine financial statement information with news, analyst reports, macro-economic data, price history and other data when making decisions. Adding a website to this process would not be a significant burden. In fact, if the information were provided in a machine-readable format, processing this information would likely be easier for financial statement users than having to sort through each auditor's report to try to obtain relevant information.

We present in an attachment to this letter an example that could be included in the form to incorporate the concepts above.

We also recommend that the requirements be expanded to adequately acknowledge the signing firm's oversight, supervision and review responsibilities over those other participants in the audit. We believe investors would benefit from gaining a general understanding of the relationship between the signing firm and other participants in the audit and the signing firm's professional responsibilities for the work performed by the other participants. Some firms are part of a loose network of legal entities, while other firms (such as EY) are members of a global organization that requires all members to follow a consistent audit methodology and adhere to a similar system of quality control. In other circumstances, such as in situations where a non-network firm's work is relied upon by the signing firm, the participating firm is outside of the signing firm's organizational structure and does not follow a similar methodology. We believe investors should be provided information so they can understand the relationship and commonalities, or lack thereof, between the other participants and the signing firm.

Finally, we acknowledge that the Proposed Amendments reflect an increase in the reporting threshold from the original proposal. However, as noted above, we believe the threshold should be increased further because we do not believe naming firms with participation of less than 10% would provide that much additional benefit to investors. Based on our internal survey, on average the number of participating firms identified at the 10% level is 50% fewer than at the 5% level. This significant drop in the number of named participating firms would be especially critical if the Board were to adopt the Proposal requiring identification within the auditor's report, which would cause consents to be required. Although moving this information into a separate form would reduce some of the practical challenges, we believe increasing the threshold would remain appropriate.

Applicability to emerging growth companies

We support consistency in the application of auditing standards to all issuer audits, including audits of emerging growth companies (EGCs) and broker/dealers. We believe consistency reduces the potential for marketplace misunderstanding. We also believe that the information regarding other audit participants would be equally useful to investors in both EGCs and non-EGCs. While not supporting the concept, if the PCAOB decides to require partner identification for issuer audits, we do not see any compelling conceptual argument for why such a requirement should not apply to EGCs. That being said, we recognize the PCAOB must perform a cost-benefit analysis related to any standard that would affect an EGC audit, and we believe the Board will face considerable challenges in demonstrating that the benefits exceed the costs. As noted above, we do not see compelling evidence that the Proposal would have discernable benefits (across all public company audits), while strong evidence exists that the Proposal will likely impose significant costs on all entities.

* * * * *

We want to again thank the Board for its consideration of this letter and the comments we previously submitted on this topic. We urge the board to consider our views in its deliberations on the Proposal. We would be pleased to discuss our comments with members of the Board or its staff.

Respectfully submitted,

Ernst & Young LLP

cc:

PCAOB
James R. Doty, Chair
Lewis H. Ferguson, Board Member
Jeanette M. Franzel, Board Member
Jay D. Hanson, Board Member
Steven B. Harris, Board Member
Martin F. Baumann, Chief Auditor

SEC
Mary Jo White, Chair
Luis A. Aguilar, Commissioner
Daniel M. Gallagher, Commissioner
Michael S. Piwowar, Commissioner
Kara M. Stein, Commissioner
Paul A. Beswick, Chief Accountant
Brian T. Croteau, Deputy Chief Accountant
Julie Erhardt, Deputy Chief Accountant
Daniel Murdock, Deputy Chief Accountant

Recommended Form Contents:

Exact name of Registrant as specified in its charter**: ABC Company, Inc.**

Period of most recent financial statements filed with the Securities and Exchange Commission:

Consolidated Financial Statements of ABC Company, Inc. as of December 31, 20XX and for the year then ended

*Commission file number**: 000-XXXX***

Description of responsibilities:

On xx/xx/xx, the above referenced financials were filed with the SEC. We are responsible for our opinion on the consolidated financial statements of ABC Company [and the effectiveness of internal control over financial reporting of ABC Company]. In conducting our audit of the consolidated financial statements, we used the services of other independent registered public accounting firms that may or may not be affiliated with us through our global network.[7] [Each member firm that is part of the network is a separate legal entity. However, all member firms follow a consistent audit methodology and are subject to a similar system of quality control.[8]] We, as the signing firm, take responsibility for the audit procedures performed by the other independent registered public accounting firms [other than firms being referred to] and, accordingly, have supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards. We requested the other participants, either included within our global network or outside our global network to conduct certain audit procedures in support of the audit of the consolidated financial statements [and effectiveness of internal control over financial reporting]. The audit procedures performed by other affiliated and non-affiliated participants represented approximately xx% and xx%, respectively, of total estimated hours involved in our audit of the consolidated financial statements on ABC Company as of and for the year ended December 31, 20xx. The listing of these other participants, as well as information regarding their affiliation and jurisdiction, is included below. The firms indicated with an asterisk are located in jurisdictions where, as of the date of this report, the PCAOB cannot perform inspections. The firms that played a substantial role on the engagement, as defined by the PCAOB, are identified with an [s].

Listing of participants:

Range of total estimate audit hours:	Firms within range
10% – less than 30%	
30% – less than 50%	
50% – less than 70%	
More than 70%	

[If no other participants were involved in the audit, the information above would be replaced with form identification information and the following sentence: We did not use the services of other independent registered public accounting firms in conducting our audit.]

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7 Language would be based on the specific facts and circumstances of an audit.

8 Each firm would describe its member network affiliation.

From: Fagan, Charles (Fiducial - US - Columbia)
To: Comments
Subject: Comments on Docket Matter No. 29
Date: Monday, February 10, 2014 2:29:00 PM

Dean Ms. Rand,

I believe there is sufficient justification for the disclosure of the name of the audit partner/CPA that has ultimate responsibility for the audit. However, I do not believe there is sufficient justification for the disclosure of specific information in regards to other participating independent public accounting firms. The "signing" partner has ultimate responsibility for the quality and performance of the engagement regardless of who performs the various procedures and provides the various documentation. This is in-line with requiring only the CEO and CFO signatures in the quarterly and annual filings. Providing participating firm information in some sense suggests a reduction in responsibility of the primary audit partner. The primary audit firm/partner should have sufficient oversight of the engagement and controls in place to make sure they are in a position to attest to the accuracy and conformity of the financial statements before issuing an opinion.

Charles T. Fagan, CPA, MBA, CGMA, CFE
Columbia, MD

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January 31, 2014

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 29
Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Dear Office of the Secretary:

The Federal Housing Finance Agency (FHFA or Agency) welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) proposed auditing standards on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*, PCAOB Release No. 2013-009, PCAOB Rulemaking Docket Matter No. 29 (the proposed auditing standards).

FHFA is the prudential supervisor for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. It also is the conservator for Fannie Mae and Freddie Mac. FHFA considers audited financial reports by its regulated entities an important input to the Agency's safety and soundness supervision process.

FHFA previously commented on the Board's 2011 Concept Release on possible revisions to auditor's report (the 2011 Concept Release) in a letter dated September 30, 2011. In that letter, FHFA indicated its support to "require both the firm and the engagement partner to sign the report." The Agency continues to support the proposed auditing standards' requirements that the auditor's report disclose the name of the engagement partner and certain other participants in the audit. FHFA's commentary on these items follows.

I. Disclosure of the Name of the Engagement Partner

The fee for service model by which an audit firm is compensated by the entity whose financial statements are being audited creates a potential conflict of interest that could impair the audit firm's independence, objectivity and professional skepticism. The engagement partner plays a critical role in managing this potential conflict and ensuring the overall quality of the audit. Therefore, providing information about the engagement partner in the auditor's report would be useful information to investors and other financial statement users.

FHFA supports the PCAOB proposal to disclose the name of the engagement partner in the auditor's report. FHFA further recommends the engagement partner be required to sign the auditor's report, and the engagement partner's name be required to be included in the proxy statement as well.

The European Union, Australia, and Taiwan already have similar regulations requiring the signature of the engagement partner, and the International Auditing and Assurance Standards Board has issued a proposal on this topic as well. The adoption of the proposed standard would make US practices more consistent with existing and emerging global practices.

The Agency believes that the engagement quality review partner also contributes to the promotion of audit quality. Therefore, the Agency also recommends that the engagement quality review partner be subject to the same requirements as the engagement partner.

II. Disclosure of Certain Other Participants in the Audit

By signing the auditor's report, the audit firm assumes responsibility for the work performed by the firm's employees and other participants. The work performed by others can range from minimal to quite extensive, and this information is currently not transparent to users of the financial statements. Therefore, FHFA supports the PCAOB's proposal for "disclosure in the auditor's report of the names, locations, and extent of participation of other independent public accounting firms that took part in the audit."

Thank you for the opportunity to provide the Agency's views on the Board's proposals. FHFA hopes the Board and staff will find these comments and recommendations helpful. If the Board and staff have any questions or comments regarding this letter, please feel free to contact me at 202-649-3450.

Sincerely,

N. Satriano

Nicholas J. Satriano
Chief Accountant and Senior Associate Director - Office of Risk Analysis
Federal Housing Finance Agency

Federation of European Accountants
Fédération des Experts comptables Européens

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington DC 20006-2803
USA

22 January 2014

Ref.: AUD/AKI/HBL/NRO/EBL

Dear Sir or Madam,

Re: FEE Comments on PCAOB Rulemaking Docket Matter No. 029, Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

FEE[1] (the Federation of European Accountants) welcomes the opportunity to comment on the PCAOB's reproposed auditing standard: *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*. FEE already commented on the proposal in 2011[2]: *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2.*

FEE acknowledges the improvements that have been made to the original proposal. Please note that we have not expressed views on issues that focus on purely national US matters. Our general comments to the issues raised in the PCAOB proposed rulemaking

[1] FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all 28 EU member states. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 700,000 professional accountants working in different capacities in public practice, small and large firms, government and education – all of whom contribute to a more efficient, transparent and sustainable European economy.

[2] http://www.fee.be/images/publications/auditing/PCAOB_111207_Improving_Transparency_of_Audits7122011151629.pdf

that are relevant from a European or international perspective are set out below and can be summarised as follows:

1. FEE fully supports the aim of improving transparency of audits and believes that including the name of the engagement partner responsible for the audit will help achieve this objective. The disclosure requirements should clearly state that only the name(s) of those that have responsibility for the audit should be disclosed in the audit report in order not to give the perception of dilution of responsibility for the audit. In order to be entirely clear about this, FEE thinks this objective could be achieved more effectively if the name be disclosed at the end of the report in the 'signature zone'.

2. FEE is not convinced of the value of disclosure in the audit report of other participants in the audit and is concerned about unintended consequences. We have noted that, whilst the PCAOB provides many economic analyses to support their proposal for naming the audit partner, virtually none are provided for this part of the proposal. FEE does not think that these disclosures will help improve transparency and strongly urges the PCAOB not to go down this route. Our detailed comments are set out below in paragraph 2.

1. Engagement partner's signature on the audit report

FEE agrees that disclosing the name of the engagement partner adds to the transparency of the audit. The perception is that the explicit naming does enhance the accountability of the engagement partner which could therefore implicitly contribute to audit quality. Although the disclosure of the name of the engagement partner is a step in the right direction, FEE believes that such disclosure would more appropriately improve transparency for users if it were disclosed at the end of the report in the 'signature zone' itself.

The name of the engagement partner – with or without the physical signature – should appear at the bottom of the audit report in connection with the name of the audit firm on behalf of which the audit is carried out. In Europe, the signature of the audit partner on audit reports is required by the 2006 Statutory Audit Directive and is reconfirmed by its current revision of which official publication is imminent. European Member States may allow the signature not to be disclosed in exceptional circumstances if the inclusion of it could lead to an imminent and significant threat to the personal security of that person.

Nevertheless, FEE acknowledges that the liability position of auditors in the US is different from auditors in Europe and we may not fully appreciate the liability implications for audit partners signing reports used in the US. The signature required in the EU is given under the provisions of the various European liability regimes for auditors and/or audit firms at national level and does not diminish the responsibility of the audit firm to establish appropriate quality control systems.

2. Disclosure of Certain Other Participants in the Audit

FEE is not convinced about the usefulness of the disclosure of certain other participants in the audit even if it is in general terms without naming the persons involved.

FEE believes that, for multinational audits, disclosures of those that took part in the audit, but are not employed by the audit firm, will likely be extensive and make audit reports significantly longer. Such extensive disclosures would detract from the key messages that audit reports are intended to convey to users. Whether it is in an environment of sole or divided responsibility, the disclosure should clearly distinguish between those that have responsibility for the audit and those that took part in the audit (as members of the engagement team, whether employed or not by the audit firm).

FEE notes the circumstances that underpin these PCAOB proposals, but is concerned about any deviation from international standards, especially those in connection with auditor's reporting. These new PCAOB requirements to disclose certain other participants in the audit may undermine the perception of responsibility of the group auditor and the consistency with the IAASB standards, especially ISA 600 'Special Considerations - Audits of Group Financial Statements' and ISA 700 'Forming an Opinion and Reporting on Financial Statements'.

One of the principal concerns of the PCAOB appears to be where substantially all of the work is done by another firm. To tackle this issue, it would be better to focus on these specific cases in order to avoid adding further to audit reports that – under the PCAOB's other proposals – will already be significantly longer.

This could be done for instance by having a much higher threshold than the 5% proposed. In addition, it may make sense to link any disclosure requirement to the requirements included in paragraph 10 of Auditing Standards No. 16. These cover the requirements to communicate to the audit committee the planned level of involvement of others in the audit and the basis for the auditor's determination that the auditor can serve as principal auditor. Therefore, the disclosure in the audit report could be limited to the cases where there is a need for explanation about this determination to be able to serve as the principal auditor.

Apart from the usefulness of the disclosure, FEE has several other concerns regarding this requirement:

- The use of hours for determining the participants that should be disclosed: whilst we recognise that it is difficult to find the ideal metric, some financial measure based on the accounts that are being audited is preferable. Would an investor not be more concerned that significant profits and assets were audited by other firms? Additionally, a sole focus on hours implies that all hours are equal, which is patently not the case. Having said that, the use of ranges for disclosure – as included in the Reproposal – might obviate the issue.

- The treatment of offshoring arrangements: we would recommend that the Board does not require disclosure when offshored work is subject to the direct supervision and review of the principal auditor (in that case, the principal auditor retains details of the work performed in its home country). In our view, there is a significant difference between a situation where an auditor has performed work offshore and all working papers produced by that offshore team are sent to the head office team and reviewed by the lead partner as compared to a situation where the working papers are retained in the offshore location.

- Last but not least, we cannot identify any value in disclosing details of other participants in the audit without any information on the work performed. We struggle to see what value a reader would gain, for instance from the examples on page A3-23.

For further information on this FEE letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be or Noémi Robert at +32 2 285 40 80 or via email at noemi.robert@fee.be from the FEE Team.

Yours sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive

Florida Institute of Certified Public Accountants

February 3, 2014

Technical Director
File Reference No. 029
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Via e-mail: comments@pcaob.org

File Reference No. 029

Re: Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Dear Board Members:

The Accounting Principles and Auditing Standards Committee (the Committee) of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the referenced proposal. The Committee is a technical committee of the FICPA and has reviewed and discussed the above referenced proposed amendments, including the questions posed in the "Questions for Commenters." The FICPA has approximately 18,500 members, with its membership comprised primarily of CPAs in Public Practice and Industry. The Committee is comprised of 20 members, of whom 50% are from local or regional firms, 20% are from large multi-office firms, 10% are sole practitioners, 10% are in academia or private industry, and 10% are in international firms. Therefore we are addressing this exposure draft both from the viewpoint of preparers of financial statements as well as those performing attest services on them.

We appreciate the PCAOB's continued efforts to improve overall audit quality and are pleased to provide our responses below:

Overall

- The Committee does not agree with the concept of placing the engagement partner's name on the audit report for a number of reasons as further summarized below.
- Regarding disclosing the information about other participants in the audit, the Committee generally feels that existing standards, possibly supplemented by current US GAAS on group audits, provide enough guidance for practitioners and provide sufficient reporting for investors.

Engagement partner's name on the audit report
The Committee noted a variety of concerns regarding placing the engagement partner's name on the audit report:

Usefulness to investors

- o Committee members expressed concerns over the usefulness of disclosing the engagement partner's name. It was also noted that investors would not have all the facts needed to judge the partner's performance and expertise.

<u>Litigation</u>

- Committee members noted the proposed amendments are generally consistent with practice in certain foreign jurisdictions and it can be said are well-intentioned. However, given the legal climate in the United States, the inclusion of the audit partner's name may do more to add figurative ammunition to a plaintiff's case than actually improving audit quality.

<u>Partner workload</u>

- Committee members noted the proposed amendments may actually hinder audit quality as firms may be forced to utilize a figurative "brand name" partner on certain engagements rather than the partner who would be the best fit to a particular audit. If firms are more concerned about having "brand name" partners on so many engagements, such partners may have a workload that is not conducive to high audit quality.

<u>Partner experience</u>

- Long-term, the proposed amendments may be detrimental to the development of future partners if younger partners are prohibited from serving as engagement partner on a number of engagements in the interest of having "brand name" partners instead for the sake of appearances. This issue, the issue above regarding workload, and other factors, could diminish a firm's quality control.

<u>Slippery slope</u>

- Members of the Committee also voiced concerns of a figurative slippery slope where the proposed amendments could lead to further expansion of the level of disclosure in the audit report ultimately leading to boiler plate wording and a dilution of investor reliability on such audit reports in part due to the heavy legal nature of the disclosures.

<u>Focus on the partner</u>

- Committee members indicated that it is not just a partner that is involved in an audit, but rather a team at a firm that is subject to a firm's quality control processes. Including the name of the engagement partner may work to provide too much focus on the partner.

<u>Disclosing the information of other participants in the audit:</u>

- Regarding disclosing the information about other participants in the audit, while views were not as strong as on the issue above, the Committee generally feels that existing standards, possibly supplemented by current US GAAS on group audits, provide enough guidance for practitioners and provide sufficient reporting for investors. While it can be said the proposed amendments are well-intentioned, Committee members expressed concerned that the proposed amendments are overly prescriptive and may be information overload, ultimately hindering the usefulness of the information. Committee members noted the current AICPA guidance on group audits, applied in the public company environment, would provide sufficient information to investors.

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The Committee appreciates this opportunity to respond to the proposed amendments. Members of the Committee are available to discuss any questions you may have regarding this communication.

Respectfully submitted,

Steven Morrison, CPA
Chair, FICPA Accounting Principles and Auditing Standards Committee

Committee members coordinating this response:
Steven Morrison, CPA
Edward Eager, CPA

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January 22, 2014

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: Rulemaking Docket Matter No. 29
Proposed Auditing Standards – Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Members of the Board,

I appreciate the opportunity to submit my comments to the Board with respect to the *Proposed Auditing Standards – Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*. I retired from public accounting in 2007 after 27 years at Deloitte & Touche LLP and am currently a full-time faculty member at the University of Notre Dame teaching undergraduate and graduate courses in accounting and auditing.

After thinking about how I wanted to introduce my comments on the proposed standards I have come to the conclusion that I cannot improve on the introduction I included in my letter of December 13, 2011, on this docket matter and accordingly repeat it now:

> The Proposed Amendments appear to reflect the notion that the investment community should grade the audit in the same way rating agencies grade securities. The Board should not expect individual investors to grade auditors. We already have a process in place to evaluate auditors and audit firms and that process falls directly under the responsibility of the registrant's audit committee. That committee is directly charged under the Sarbanes-Oxley Act with responsibility for "the appointment, compensation and oversight of the work of any registered public accounting firm employed by that issuer…".[1] Audit committees are charged with evaluating and selecting auditors. The Proposed Amendments would undermine that process.

1 Public Law 107-204, 107th Congress, July 30, 2002, "Sarbanes-Oxley Act of 2002", Sec. 301 (2) Responsibilities Relating to Public Accounting Firms

The Proposed Amendments place too much emphasis on the role of one individual. Audits are conducted by teams of individuals; the largest audits have numerous partners, managers and staff comprising the audit team. While the signing partner has overall responsibility and signs the opinion on behalf of the firm, it's not an individual project with technical support. In many cases that lead partner is not the only key player in the conduct of the audit. For example, a partner supervising the audit of a major corporation with highly material exposure for asbestos related claims or supervising the audit of an insurance company would rely extensively on the work of the actuarial specialists who are part of those audit teams. The lead partner on the audit of a financial institution engaged in loan originations and securitizations would depend on the work of financial instrument specialists in the valuation of individual deals. Lead partners must rely on specialists in many areas including business valuation, international taxation, management information systems, government contracting, medical claims evaluation, appraisal of real estate, translation from other languages into English, computer system security, engineering and a host of others. Many engagements use multiple specialists and no one on the Board would expect the lead partner to be a specialist in all areas. Evaluation of the quality of the firm's performance as the auditor includes evaluation of its capabilities in all of the many areas of specialization that pertain to the registrant's business. That evaluation is not captured in the disclosure of a single name or in the disclosure of the countries of origin of offices participating in the conduct of the audit. However, all of that information and more is routinely considered by audit committees as they fulfill their responsibility to oversee the independent auditor.

Should the Board somehow conclude that disclosure of lead partner names and participating office locations is important to investors, I do not believe the auditors' opinion is the appropriate venue to accomplish this disclosure. Accordingly, I submit the following recommendation:

Recommendation

The Board should present its case to the Securities and Exchange Commission and request the SEC consider expanding the proxy disclosure requirements in Item 9 of §240.14a-101 to require the audit committee to disclose its consideration of the quality of the audit firm's practice and its personnel. Such disclosure would include the committee's consideration of the firm's worldwide service capabilities listing the firm's offices in key or critical locations, other participating firms' offices in key locations, as well as its consideration of the quality of the engagement team personnel under the leadership of "J. Doe, Lead Audit Partner". The disclosures proposed by the Board would therefore be made in the context of the audit committee's fulfillment of its responsibilities to oversee the independent auditor and allow it to inform its shareholders and other users of the financial statements of the basis for its satisfaction with the appointment of the firm as the registrant's auditor for the current year.

My responses to the Board's specific questions are as follows:

1. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

I do not believe it would provide useful information. The engagement is performed by a team of people including other partners, specialists, staff, QC personnel, consultation personnel, technical groups, tax professionals and many more. While it might be interesting, the proposed requirements are based on an assumption that we're dealing with the "Lone Ranger" here and we are not. For example, the Citigroup Corporation Proxy Statement indicates that KPMG's annual audit fees amount to over $80 million. That would indicate to me that the total effort required performing that audit and related work amounts to at least 250,000 hours. The signing partner individually accounts for less than 1% of that total effort; it's humanly impossible for him or her to account for more than that. Citigroup has trillions of dollars of assets with hundreds of billions of those assets comprising financial instruments carried at estimated fair value. The effort required to audit those financial instruments is staggering; to reduce KPMG's performance to a single name in an opinion is misleading at best. To think that Citigroup's audit committee continues to engage KPMG as its auditor based on one person's qualifications does a disservice to that committee.

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

In my judgment, the shareholders would have no basis whatsoever to decide to ratify or not ratify the audit committee's choice of audit firm based on knowing the name of the engagement partner. The audit committee chooses a firm as the registrant's auditor based on the qualifications, resources and performance of the firm, not that of the individual partner. Likewise, a registrant with operations around the world must be served by an audit firm with offices in those same locations. Accordingly, whatever firm serves a given registrant the extent of participation by other offices would be nearly the same reflecting the relative sizes and complexity of the registrant's operations. The audit committee is charged with overseeing the performance of the audit firm as a whole and has direct experience with the actual performance of those far-flung participants. Again, in my judgment, the shareholders would have no basis on which to make a judgment about the auditor based on knowing the extent of participation of others in the audit. Given that lack of knowledge, it seems to me that a shareholder vote against ratification is not an expression of lack of confidence in the auditor but an expression of lack of satisfaction with the performance of the audit committee.

3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

As noted above, while it might be interesting it would not actually be useful. The "tracking" of the presumed performance of an individual partner is not the job of investors and other users of financial statements. Modern corporations are incredibly complex and the skill sets required to audit those entities are resident in the firm, not in a single individual. Consider the expertise required to audit any registrant in today's environment; the firm has to have experts to handle financial instruments, actuarial estimates, legal exposures, leasing activities, tax positions, computer systems, controls over those systems, and so on. The Audit committee has the job of judging the expertise of the team that the firm proposes to assign to the audit; it's not the job of the investing community to make that assessment nor will the investing community have the necessary knowledge to do so by having the name of the signing partner.

b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

Again this is not a one person show. The first time an audit committee approves the partner to be assigned to the engagement, it gets information from the firm, from audit committee members at registrants previously served by the partner, and from the other partners who have been serving the committee to that point in time. For the ensuing four years, the audit committee is relying on its own experience with that audit partner – how that partner communicates, supervises, consults with others, marshals the firm's resources and so on. The committee has a listing of companies previously served by that partner and has the ability to get all the information it needs; the proposed disclosure adds nothing to the audit committee's information base. Investors should have no role whatsoever in deciding which one individual of very many should be assigned as the lead partner.

4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

Again, I fail to see how this information would be useful. All audit firms have litigation and disciplinary proceedings; all firms have clients that have restated financial statements. Audit committees hire an audit firm, not the lead office and then other offices or firms individually. Audit committee members are aware that different offices or firms are the largest, or the "best" or have the most industry expertise in any given city or country in the world. Why don't audit committees choose to engage the best possible firm in each and every location? Because the cost of coordinating across firms, the time and difficulty involved in obtaining opinions and consents for every filing from more than one firm is daunting. While assembling an all-star team from among numerous firms might work in the legal profession, it does not work for audits. Investors might attempt to build data bases on which to base inferences about the quality of a registrant's financial reporting by location; in my judgment that effort would be futile and not only would undermine the audit committee, but undermine the CEO and CFO who are ultimately responsible for the performance of the organization.

5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

No. Investors do not buy and sell securities based on the identity of the auditor and I cannot imagine they would attempt to buy and sell securities based on the name of an engagement partner or the percentage of an audit done by a UK or South African affiliate. In my experience, banks do not make lending decisions or establish interest rates based on the identity of the auditor; I doubt that ratings agencies move from AAA to BBB based on a change in auditors.

6. Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

The name of the partner likely gives PCAOB inspection teams an insight into the quality of the audit working papers and the chances your inspectors will find reportable deficiencies. Based on my reading of inspection results, the number of times these working paper deficiencies indicate financial statement deficiencies is relatively minimal – about what you'd expect given that auditors and issuer financial personnel are human beings who make errors. The quality of the audit is significantly different from the quality of the working papers. The fact that a company has high quality financial statements is a testament to company management and the tone set by the audit committee, not the auditor; the financials could be perfect and the audit could be quite deficient. An audit firm may have performed an audit that was 99% perfect – and that 1% missed could have resulted in a material misstatement in the financial statements, or more likely a PCAOB inspection deficiency. While we should expect auditors to strive for perfection we should not expect they will always achieve it. The most technically proficient audit partner in the firm may be serving a weak management with an equally ineffective audit committee; the weakest partner in the firm may be fortunate enough to have been assigned to the finest client of the firm. Again, I cannot imagine any rational investor or lender making capital allocation decisions based on the identity of an individual who has at most a five year assignment in that role.

7. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

While this question makes sense for law firms, it does not for public accounting firms. When lawyers move from one firm to another, they may take clients with them; it is not so for public accounting firms. As noted above, it's the firm that the audit committee is engaging, not the individual. I've been a partner on clients personally where I believe I was respected and even liked by management and the audit committee but the audit committee put the audit out for bid to achieve a lower fee – reflective of the fact that I was not a one-man-show and could not unilaterally lower the fee in contravention of the wishes of my partners. Does anyone on the Board actually believe that Deloitte, KPMG or PricewaterhouseCoopers could take over the audit of Walmart by luring the lead engagement partner away from Ernst & Young?

8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

My previous comments have addressed the fact that any users who try to make inferences about the quality of the registrant's financial statements based on the name of the signing partner would be foolish at best. One potential consequence I believe would be the continuation of the increasing pressure being placed on individual partners by the Board's inspection process. In his recently submitted letter on these proposed standards former FASB Chairman Dennis R. Beresford, wrote that he is "concerned that emphasizing the negatives could just add to the stress faced by so many audit partners in today's world… and that many well qualified individuals are being driven out of audit practice by what they perceive as a 'gotcha' mentality of the inspections staff"." I too believe this continued assault will make it more difficult for the profession to attract and retain high quality individuals.

9. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

I see no costs (assuming an individual consent is not required of the partner); it's a name being disclosed. The costs are hidden and are related to the impacts on the partners noted above and any hidden costs imposed on users who try to draw inferences and make judgments about registrants based on knowing this one name. For small issuers served by very small firms it's quite likely that the engagement partner's name is one of the names of the firm. EGCs are high risk as the Board pointed out in its recent proposed standard on reporting and it's no less critical that it's the capabilities of the firm that are important not the name of an individual. The audit committee of an EGC should be evaluating whether the proposed audit firm has the necessary expertise, not the individual. My experience with audit committees at smaller registrants is that they were equally interested in the backgrounds and qualifications of the Audit Sr. Manager, Audit Senior, Tax Partner and others on the team.

10. What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

During the period of time when the consenting partner is also the engagement partner, there are no additional monetary costs that I can see; that partner is performing all the procedures necessary for the firm to consent and those procedures would also serve that partner. As noted above, I retired in 2007. Had I been the signing partner on a December 31, 2006, year-end registrant and had these proposed standards been in place, any filings requiring the firm's consent to use its 2006 would have required my consent as well. During the ensuing year (2007) whether I were distanced from the ongoing 2007 audit due to retirement or due to the operation of the five-year rotation requirement, I would have had to perform sufficient work on my own to enable me to consent to the incorporation of my name in any document filed between the time I completed my service as the signing partner and the completion of the 2007 audit under the supervision of the partner who followed me on that engagement. A process for giving me access to the firm's current work would need to be arranged given that I would no longer be permitted to be affiliated with that audit either as a retiree or as a partner who reached the five-year rotation limit. I would need to be compensated for my time; I would determine the amount of time it would take me to become professionally satisfied; I would determine the appropriate billing rate per hour for that time. I would be concerned about my personal liability as a retiree and might incur costs to obtain legal counsel particularly in a situation where I noted matters that could potentially cause me to withhold my consent.

It is not clear from the Board's discussion what actions the SEC, the firm or the registrant might be required to take if I were to withhold my consent.

11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

I have actually signed my firm's name to a consent. There would be no greater "compliance with existing auditing requirements" whether I signed my name or the firm's; I'd perform the same procedures.

While I agree with the Board's conclusion that a requirement for the signing partner to individually sign a consent does not change that partner's professional obligations, that is only true during the period that partner is in fact the signing partner. The first quarter following a five-year rotation, that partner would be required to continue to provide consents as his or her name would be on the opinion incorporated by reference. The same would be true of a newly retired partner. It would also be true for at least two years following a change in auditors as the predecessor firm's opinions would continue to be incorporated into filings and consents of the firm and the signing partner's consent would still be required. The Board's characterization of the giving of a consent as an administrative process with minimal involvement by these former partners whose names would simply be added to the consent given by the firm underestimates the professional obligations of those who give a consent for the use of their names; giving a consent is not just a matter of form. One must perform appropriate subsequent events procedures, including reading the entire document, making inquiries of the current auditors, obtaining management representation letters – it's not just a mere signing of one's name to a consent; it's doing enough work so that you are professionally willing to give that consent. Additionally, if the Board believes that the partners' names could simply be included in the firms' consents, then it is apparent that at least some members of the Board understand that the individual partner is not the "Lone Ranger" in the conduct of an audit but is one individual in the firm's overall structure to perform the audit. Concluding that a partner's individually signed consent is unnecessary when it comes to the consent process is inconsistent with any assumptions underlying the arguments for disclosure of the lead partner's name and necessarily presumes the partner has no right to refuse to consent to the subsequent use of his or her name.

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

With respect to disclosure of the lead audit partner's name, this question is insulting to anyone in the profession and must have been proposed to the Board by someone who has hidden behind a corporation or law firm name to somehow avoid taking personal responsibility for his/her actions.

On the other hand, I do understand that the Board's inspectors have found instances of smaller firms relying on the work of other audit firms overseas and not supervising those firms as required by professional standards. This failure to follow professional standards would not be cured by the disclosure of the other firm's existence; auditors who are unwilling or unable to directly supervise the work of other firms (a requirement when they assume responsibility for the other firm's work and make no reference to it in the auditors' opinion) are not going to change that behavior based on the proposed disclosures. Users who read auditors' reports containing the proposed disclosures may presume all such auditors are failing to supervise those other firms and draw erroneous conclusions about the quality of the registrants' financial statements and the quality of the auditors' work.

I believe these instances of inappropriate reliance on other auditors is likely limited to smaller firms that do not have large international networks of integrated affiliated firms. I further believe this situation should not be addressed by means of disclosure but directly through the Board's registration and inspection process. The Board's algorithms for identifying potential registrant audits for inspection should be able to identify registrants with significant overseas operations. The Board's inspectors could then focus their efforts with respect to triennially inspected firms on these higher risk situations.

13. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

If consents are required from other participants in the audit then costs will increase as those other participants will spend time performing all the procedures necessary to give their consents. As noted above, these are not perfunctory administrative actions. Issuers will pay for that time not only with cash, but with the added administrative time it takes to coordinate the consent process. Information must be gathered and shared; the document in which their names will appear either directly or by incorporation must be provided to them to be read; they must update their knowledge of the operations they serve since the date they last performed work at that location; they must consider any changes or new information up to the moment at which they give their consents which means all of this effort is happening simultaneously whether it's the middle of the day in the US or the middle of the night in Asia.

14. What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

From my own personal experience coordinating with other auditors and predecessor auditors, it is a hassle to get consents from other auditors every time one does a filing; that is why very few registrants have other audit firms involved in the audit. Every filing that even incorporates a Form 10-K by reference requires the consent of each and every audit firm named. It is a process that cannot be avoided when a registrant changes auditors; it takes time and is billed for. "Other auditors" do incur costs to give their consents; they spend considerable time reading the document to be filed, updating subsequent events, comparing information in the document to information they know from their prior experience and so on. In my own firm, every SEC filing was also reviewed by SEC reporting specialists in the National Office. All of this time is billed to the former client registrant. If the registrant also needed to get consents from other entities in addition to the former lead auditor, that process would be magnified. The monetary cost is not what the Board would consider significant; however the time cost on senior registrant personnel can be as this process occurs at a time when they do not have hours to spare. Additionally, as in any situation where there has been or continues to be a dispute with a predecessor auditor, that auditor may refuse to give its consent. One of my own experiences with that situation relates to Molex Corporation (2003) where Deloitte & Touche was unwilling to provide consents. The SEC will not force any auditor to provide a consent; accordingly, Molex was required to have all prior years re-audited by its new auditor. If the Board expands the universe of entities required to give consents, it increases the potential that an entity will refuse to do so likely resulting in the need to re-audit that portion of the registrant for the necessary periods or engage new specialists to perform the applicable services for those periods. This would be costly monetarily and also create delays in the registrant's reporting that could lead to de-listing as in the case of Molex.

15. Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

From a benefits standpoint perhaps it will expand the universe of potential defendants in US law suits. If that occurs, perhaps the overseas audit firms will stop providing consents or will adjust their fees to compensate for any perceived increase in risk. To the extent those firms perceive an unacceptable level of risk, such as with some EGCs for example, it may be more difficult to get those firms to participate in the audit unless they are firms affiliated with one of the major accounting firms and are professionally bound to do so.

16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

I do not see how this will truly help users and as noted previously, the audit committee has this information. If an issuer has operations around the world a user would understand that there are auditors involved around the world. For example, Walmart has operations around the world; about 25% of its sales are overseas; a majority of its stores are overseas. Based on Walmart's segment note, it is possible that none of those overseas operations would comprise sufficient assets or revenues such that any individual audit firm in any one country would be disclosed in the EY opinion. On the other hand, Proctor & Gamble reports a majority of its sales are overseas as are a majority of its assets and that no one country accounts for more than 10% of the total business. Knowing that the Deloitte firm in the UK or in Japan accounts for 3% to 10% of the total audit hours might lead users to attempt to infer some direct relationship between audit hours and the size of the operations in those countries – information not disclosed in the segment note. That inference may or may not be misleading; however, to the extent users are attempting to discern this level of detail related to segment reporting, it would appear to me more appropriate that they petition the SEC for more detailed disclosure in MD& A or petition the FASB for a lower threshold for segment reporting.

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

Again, as I see no real benefit from this disclosure in the first place; changing the percentage threshold would be equally meaningless.

18. Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

> *a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?*
>
> I fail to see how this information is useful. The auditor is engaged as a firm, not on an office by office basis. Is the PCAOB concerned that there are "low quality audits" being conducted in some part of the world? There probably are; and there is probably low quality production of goods on the part of registrants in those same locations. The audit committee takes that into account as it gets reports from management and has experience with the audit firm over time; it does not hire a firm on an office by office basis but evaluates the quality of the audit firm as a whole. As noted above, proposed disclosures of this nature undermine the authority and responsibility of the audit committee.
>
> *b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?*
>
> Again, this is the job of the audit committee. All the large firms have "US offices" based overseas and use personnel in those locations who are "employees of the US firm". Moving individuals from one "office" to another is likely no more difficult than transferring someone down the hall or across the street. The distinction seems artificial at best. As a practical matter, if the US personnel are not satisfied with the quality of the work they get from their colleagues overseas, whether in an off-shore office or an affiliated firm office, they will move swiftly to remedy that. If the audit committee is not satisfied and

the audit work pertains to a significant location, the committee will put significant pressure on the lead audit firm to improve the situation.

19. Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

I have no experience working with alternative practice structures, but again this is the job of the audit committee to understand not the investment market place.

20. Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

Again this is an audit committee responsibility and is directed at smaller firms who do not have consulting groups staffed with all the valuation, actuarial and other specialists that the big firms have. The audit committee has this information and for smaller registrants the audit committee must make the decision whether to stay with a smaller firm that uses outside experts or incur the increased costs of engaging a national or international audit firm.

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

To the extent those specialists do not have time reporting systems, they will likely develop them to capture the hours spent by their employees on an engagement by engagement basis. There may be a hidden cost down the road however. If the message here is that in some way audit firms that do not have all the necessary in-house specialists are professionally inferior to those that do, we may see an increase in mergers among smaller firms and the growth of consulting practices in those firms as they hire the necessary specialists. Alternatively they may not be engaged by audit committees to perform audits due to pressure from users who draw inferences from the fact that a small firm does not have its own actuaries for example. This does not seem to be consistent with recent sentiments that there is too much concentration among audit firms and too little opportunity for smaller firms to continue serving their clients once those clients opt to become public.

21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

As noted previously, evaluation of the audit firm’s capabilities is the job of the audit committee not the users. Audit committees have this information so disclosure would be irrelevant and merely undermine the authority of those committees.

22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

The PCAOB already knows who the individual auditors are so this is obviously not for use by the Board; it is going to be used by those who want to mine data – and who do not read the auditors' reports. If the Board believes this is valuable to users, then it should insure that users read the auditors' reports to get this information as well as the other information included in the auditors' reports. The Board has spent extensive time recently on projects to purportedly improve the information content of the auditors' reports; any action (such as this) that would direct users away from actually reading such reports is counter-productive. This request by investors or other users to have a data base in which to find this information outside the auditors' reports supports my own belief that they do not in fact read auditors' reports – and likely don't read very much of the registrants' financial statements.

23. Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

If the Board concludes that this is useful to users of financial statements, then it should apply to all financial statements not just a subset of financial statements.

24. Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

If the Board concludes that this is useful to users of financial statements, then it should apply to all financial statements not just a subset of financial statements.

25. Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

EGCs may be more likely to be audited by smaller firms. To the extent any or all of these proposed amendments are aimed at improving audit quality, I would submit that they will not have that impact. The Board's inspection process can have that impact and I would encourage the Board to focus its resources on the inspection process rather than the standard setting process. I believe the Board should adopt the process employed for the past seventy years by the SEC for the establishment of GAAP: work primarily through the private sector on standard setting and concentrate on enforcement.

I appreciate the opportunity to offer my comments.

Sincerely,

s/ James L. Fuehrmeyer, Jr.

James L. Fuehrmeyer, Jr. MBA, CPA
Associate Teaching Professor

Fund Democracy
Consumer Federation of America

March 17, 2014

FILED ELECTRONICALLY

Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K St., NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 029

Dear Ms. Brown,

We greatly appreciate the opportunity to comment on behalf of Fund Democracy and the Consumer Federation of America[1] on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") proposal to require, among other things, that audit firms disclose the name of the audit engagement partner in the auditor's report.[2] The Board's leadership on this and other issues has been a beacon of hope for those who continue to believe that effective regulation is a necessary condition of efficient financial markets. We applaud the Board's proposal and urge its expedited adoption.

We strongly agree that naming the engagement partner will improve audit by incentivizing the partner to exercise greater diligence and more forceful leadership. As one commentator has noted regarding the similar certification requirement for public company CEOs and CFOs, "when people know they can and will be held accountable for their actions, their behaviors change."[3] As recognized by virtually all commentators on the Board's proposal, including its critics, naming the engagement partner will have the effect that personal accountability invariably has on responsible individuals. Engagement

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[1] Fund Democracy is a non-profit investor advocacy group of which Mr. Bullard is the founder and CEO. Ms. Roper is the Director of Investor for the Consumer Federation of America, which is a non-profit association of nearly 300 national, state, and local pro-consumer organizations that was formed in 1967 to represent the consumer interest through research, advocacy and education. Although we are also members of the PCAOB's Investor Advisory Group, these comments are not those of the Group and do not necessarily reflect its views.

[2] *See* Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit, PCAOB Release No. 2013-009 (Dec. 4, 2013) ("Re-Proposing Release") *available at* http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB%20Release%20No%20%202013-009%20-%20Transparency.pdf.

[3] Ronald E. Marden, Randal K. Edwards, and William D. Stout, *The CEO/CFO Certification Requirement*, The CPA Journal (July 2003) *available at* http://www.nysscpa.org/cpajournal/2003/0703/features/f073603.htm.

partners will be more careful, thorough, independent and uncompromising when investors are informed about the engagement partners' critical role in the audit process.

The market for audit services will become more efficient with improved transparency as public companies and the users of financial information will be better able to evaluate the skill, experience and record of the audit's primary supervisor. For example, naming the engagement partner will help them assess the impact of changes in the engagement partner on the quality of the audit. The engagement partner's professional reputation will be directly tied to the audit, thereby enhancing accountability. Finally, naming the engagement will strengthen investor confidence in public company financial statements and thereby facilitate capital formation.

The Board's proposal will enhance the reliability of financial statements for all public companies. We therefore believe that no exceptions should be made for emerging growth companies, for which a series of ill-advised regulatory exemptions already threaten investor confidence. If subpar engagement partners can escape public scrutiny simply by overseeing audits of emerging growth companies, then exempting these companies will guarantee that their audits will be subpar as well.

Professional Standards of Accountability

The naming proposal will subject public accountants to widely accepted standards of accountability for professionals. Doctors, lawyers and other professionals are routinely required to assume personal responsibility for their work. Doctors take responsibility for distributing medicine by personally signing prescriptions. Lawyers take responsibility for the truthfulness of legal filings by personally signing court documents. In neither case would reasonable persons argue that personal responsibility degrades performance. Rather, personal responsibility is considered a necessary condition of providing high-quality professional services.

In other contexts, the law has recognized the importance of holding individual gatekeepers of the integrity of public companies' financial statements accountable for their public trust. For example, the Federal Reserve Board requires that bank holding companies name their audit engagement partners, and the European Union requires that its members adopt a similar requirement. Public company CEOs and CFOs have long provided public assurances regarding their firms' financial statements. For example, they are subject to a *de facto* requirement to provide a Management Representation Letter[4] that attests to an exhaustive list of specific matters relating to the audit. These matters are too lengthy to include in this letter, but notably include representations regarding:

- Management's acknowledgment of its responsibility for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with generally accepted

[4] Management Representation Letter, AU § 333 (eff. 1998) *available at* http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00333.pdf.

accounting principles;

- Management's belief that the financial statements are fairly presented in conformity with generally accepted accounting principles;

- Management's acknowledgment of its responsibility for the design and implementation of programs and controls to prevent and detect fraud;

- Knowledge of fraud or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, or (3) others where the fraud could have a material effect on the financial statements;

- Knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others; and

- Information concerning related-party transactions and amounts receivable from or payable to related parties.

Audit engagement partners should not be allowed to abjure any public, personal responsibility for the fulfillment of their public duties while other gatekeepers of public company financial statements attest personally in public certifications that they have fulfilled their public duties.

The Sarbanes-Oxley Act of 2002 further expanded executives' personal responsibility for the integrity of public company financial statements. Section 302 of the Act requires that the CEO and CFO include in public reports submitted under Sections 13 and 15 of the Exchange Act a certification to accompany the audit report:

> that [is] based on such officer's knowledge, the financial statements, and other financial information included in the report, [and] fairly presents in all material respects the financial condition and results of operations of the issuer as of, and for, the periods presented in the report.[5]

The Act's emphasis on the CEO's and CFO's public assumption of personal responsibility for the integrity of their firms' financial statements is reinforced by its provisions that increase fines and sentences for executives' misconduct. As noted by commentators:

> The Sarbanes-Oxley Act's mandatory responsibility requirement would appear to be a clear improvement over previous practice. With potentially

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[5] *See also* Exchange Act Rules 13a-14 and 15d-14 (requiring that an issuer's principal executive and financial officer each certify that they have reviewed the issuer's quarterly and annual reports and "that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.").

> larger fines and even prison terms for noncompliance with Sarbanes-Oxley requirements, executive management will likely give more thought and care to the certification process. . . . Consequently, now that executives are being held personally responsible for their companies' financial statements, they must worry more than ever about their personal bottom lines.[6]

There is no doubt that strengthening the personal accountability of audit partners will cause them "to give more thought and care" to the fulfillment of their responsibilities as well. It is starkly incongruous for public company CEOs and CFOs to assume public responsibility for the integrity of their firms' financial statements while the engagement partner who is primarily responsible for the quality of the audit is allowed to remain concealed from public view.

The naming of the engagement partner, as the Board points out, is only a first step. Additional disclosure is needed regarding the background of individuals who are primarily responsible for the conduct of an audit. For example, securities brokers are required to provide extensive disclosure of their disciplinary history and other background information. This disclosure enables the public to evaluate a broker's record while creating incentives for brokers to comply with the law and treat their customers fairly. These requirements contrast sharply with what Senators Levin and Coburn aptly described as "a long history of excessive secrecy and weak accountability for U.S. public company audits."[7]

No public record exists for CPAs that is similar to what is available for brokers. The American Institute of Certified Public Accountants posts online CPAs' disciplinary actions by year rather than by CPA, it provides no effective means of searching disciplinary information by individual, and it removes notices of suspensions from its website one year after the suspension ends. If a CPA is reinstated after being terminated, the record of the termination is removed five years after reinstatement.

Public debate currently rages about the precise level of detail and currency of disclosure of brokers' disciplinary history, yet no similar system of public disclosure regarding any CPA's – much less any engagement partner's – disciplinary history even exists. This contrast turns logic on its head. While CPAs, who serve in a formal quasi-governmental capacity, are not subject to public disclosure requirements, brokers must provide extensive, detailed disclosure for a database. The broker database is appropriately

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[6] *The CEO/CFO Certification Requirement*, *supra* note 3.

[7] Letter from the Honorable Carl Levin and the Honorable Tom Coburn, U.S. Senate (Feb. 3, 2014) *available at* http://pcaobus.org/Rules/Rulemaking/Docket029/020c_Levin-Coburn.pdf. *See also The 10th Anniversary of the Sarbanes-Oxley Act*, Hearing before the Subcommittee on Capital Markets and Government Sponsored Enterprises, Committee on Financial Services, United States House of Representatives (July 26, 2012) (testimony of Mercer Bullard discussing *de facto* prohibition on public disclosure of PCAOB proceedings against auditors).

named "BrokerCheck;"[8] a "CPACheck" is long overdue and should be the next item on the Board's agenda.

Social Benefits of Legal Liability

Some commentators have expressed concern that naming the engagement partner may increase litigation costs and expose the partner to personal liability. What is missing from these comments, however, is any recognition that legal liability can and does serve a valuable social purpose.[9] In a time when some legal reforms seem based solely on the proposition that legal liability has no social benefit, it is important to remember that legal liability is a foundational principle of the rule of law and, indirectly, of western civilization. Some recent legal reforms have promoted a Hobbesian legal regime in which companies can sell inherently dangerous products, doctors can commit egregious malpractice, insurance companies can recklessly deny claims, and investment bankers can bring society to the brink of financial collapse ***often with virtual impunity***, but this is no reason for the Board to accede to the argument that actors should not be held responsible for their actions.

In some respects, we are concerned that the Board's discussion of legal liability may be interpreted to reflect the view that regulators should always seek to minimize litigation risk.[10] The Board should, of course, consider the potential costs of frivolous lawsuits, but it should also stand firmly for the proposition that private and public liability is a critical component of effective regulation. To the extent that the Board's proposal increases the likelihood that appropriate persons will be subject to liability under the securities laws, it should promote its proposal as creating a positive social benefit.[11]

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[8] "BrokerCheck is a free tool to help investors research the professional backgrounds of current and former FINRA-registered brokerage firms and brokers, as well as investment adviser firms and representatives. BrokerCheck information is drawn from filings by regulators, firms and investment professionals. It includes current licensing status and history, employment history and, if any, reported regulatory, customer dispute, criminal and other matters. It should be the first resource investors turn to when choosing whether to do business or continue to do business with a particular firm or individual." FINRA BrokerCheck at http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/.

[9] *See*, *e.g.*, Letter from McGladrey LLP (Jan. 29, 2014) *available at* http://pcaobus.org/Rules/Rulemaking/Docket029/011c_McGladrey%20LLP.pdf. We note that McGladrey's comment letter is not signed by its author.

[10] *See*, *e.g.*, Re-Proposing Release at 20 - 21 ("[w]hile the Board has not sought to increase the risk that an engagement partner would be held liable in private litigation, it has recognized and, where it could, consistent with its policy objectives, tried to mitigate this possibility . . . the Board believes that any possible increases in a named engagement partner's or participating accounting firm's exposure to liability should be limited").

[11] Final Report of the Advisory Committee on the Auditing Professional to the U.S. Department of the Treasury at VII:30 – 31 (Oct. 6, 2008) ("ACAP Report") ("Easing auditor liability adversely impacts investor perception of audit quality and confidence in audited financial statements because most investors, consistent with the view of many market participants and the results of numerous academic studies, have concluded that auditing firms would reduce the intensity of their audits if the risk of litigation is further minimized. . . . Auditing firms would reduce the quality of their audits if the threat of litigation were to be

Indeed, the risk of justified personable liability is arguably accountability's sharpest edge, yet rather than asserting this benefit the proposal seems to apologize for it.[12]

We urge the Board to clarify that it seeks to mitigate only the possibility of *unjustified* private liability and note that any increase in *justified* private (and public) liability constitutes one of the many benefits of the proposal.[13] Otherwise, the Board risks providing implicit support for popular attacks on the legitimacy of legal liability as a tool of effective public policy.

Liability Considerations

We are also concerned that the issue of legal liability has not been properly framed. The naming of the engagement partner does not, of course, represent actionable misconduct in and of itself. Any incidental liability can only be based on illegal conduct that is independent of the naming of the partner.[14] In other words, a person cannot be held liable simply because they were the engagement partner or they were named as such.

Commentators' actual liability concern may be the perceived risk that merely naming the engagement partner may independently support a finding of legal responsibility for illegal conduct. In other words, the mere allegation that the partner was named may alone sustain a private or public claim that the partner was legally responsible for the alleged misconduct. However, we are unaware of *any* evidence that naming the engagement partner will affect the factual predicate[15] needed to sustain a legal claim.[16]

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reduced." (citations omitted)) *available at* http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf.

[12] "Private litigation is an important supplement to regulatory activity in ensuring accountability and confidence in our financial markets." *Id.* at II:7.

[13] For example, the Board removed the phrase "responsible for the audit" in examples of audit reports to address liability concerns, Re-Proposing Release at 26, yet that is exactly what an engagement partner is – "responsible for the audit." Indeed, the term "engagement partner" is defined as the "member of the engagement team with ***primary*** responsibility for the audit." Appendix A, Auditing Standard No. 9 (emphasis added). Rather than deleting the offending, yet truthful phrase, the Board should consider adding the word "primarily." Another example appears where the Board states that "there could be indirect costs to engagement partners and other audit participants related to obtaining representation in cases when they may not have been named before." Re-Proposing Release at 31. We encourage the Board to note that there could be indirect benefits resulting from the possibility that such persons may be held personally accountable. Where the Board discusses potential liability of engagement partners under the *Janus* standard (that is, when they may be found to be a "maker" of a statement in a public filing), *id*. at 24 – 26, it could clarify that, if an engagement partner makes a statement for purposes of *Janus*, then the partner *should* be legally responsible for that statement.

[14] *See* Proposing Release at 23 ("the engagement partner's liability would be based on the same facts that already subject the firm to liability").

[15] The Board assumes that the legal predicate for liability under Section 11 of the Securities Act would exist because the engagement partner would be viewed, for purposes of Section 7 of the Act, as "having prepared or certified any part of the registration statement, or is named as having prepared or certified a report or

Rather, naming the engagement partner will ensure that fraud does not go unpunished simply because identifying the individuals who were responsible for the audit is too difficult. Critics of the Board's proposal correctly recognize that naming the engagement partner will prevent the partner from denying that he or she was the "member of the engagement team with primary responsibility for the audit."[17]

The clear allocation of personal responsibility for established violations of the law has been the most significant impediment in prosecuting white-collar wrongdoing. Entities, including audit firms, cannot violate the law without the actions of individually responsible persons.[18] Every instance of fraud must have one or more human authors. All too often, however, private and public claims against individuals are stymied because no evidentiarily sufficient causal path can be traced to them. These responsible individuals exist – an entity can act only through its agents – but they are able to hide behind a haze of corporate bureaucracy that has been the downfall of countless private and public financial fraud prosecutions. Individual responsibility is clear when bonuses are awarded, but only the face of the employer is visible when accountability is sought for fraud.

Naming the engagement partner is a first and necessary step to ensuring that auditing misconduct can be traced to its architects. As noted by the Board, "[i]t is

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valuation for use in connection with the registration statement." *Id.* at 21 - 22. We do not agree that it is self-evident that acting as engagement partner necessarily equates to having "prepared or certified" The Board's General Counsel has implied that this is at least an open question and that "the SEC could issue a safe harbor rule." *See* Financial Reporting Blog (October 2011) (stating: "the issue is whether the SEC would require a Section 7 consent") *available at* http://www.financialexecutives.org/KenticoCMS/FEI_Blogs/Financial-Reporting-Blog/October-2011/PCAOB-Proposes-Disclosure-of-Engagement-Partner,-O.aspx#ixzz2wDKA8qRL. The SEC expressly found that the designation of an audit committee financial expert did not have any effect on potential Section 11 liability and, out of an abundance of caution, adopted a safe harbor to that effect. *See* Disclosure Required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002, Securities Act Rel. No. 8177 (Jan. 23, 2003) (adopting CFR § 228.401(e)(4)). The Board should discuss any consultations it has had with the SEC regarding a safe harbor that would provide, for example, that an engagement partner shall not be deemed to have "prepared or certified" for purposes of the Securities Act solely by reason of having been named as the engagement partner

[16] *See* ACAP Report at VII:20 ("The Committee notes the signature requirement should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm.").

[17] Appendix A, Auditing Standard No. 9 (defining "engagement partner").

[18] *See* The Honorable Jed Rakoff, *The Financial Crisis: Why Have No High-Level Executives Been Prosecuted?* N.Y. Rev. Books (Jan. 9, 2014) ("you should not indict or threaten to indict a company unless you can prove beyond a reasonable doubt that some managerial agent of the company committed the alleged crime; and if you can prove that, why not indict the manager? And from a moral standpoint, punishing a company and its many innocent employees and shareholders for the crimes committed by some unprosecuted individuals seems contrary to elementary notions of moral responsibility.") *available at* http://www.nybooks.com/articles/archives/2014/jan/09/financial-crisis-why-no-executive-prosecutions/?pagination=false.

indisputably true that the engagement partner plays a unique role in the audit."[19] Naming engagement partners will deny them the comfort of plausible deniability when misconduct comes to light. Rather, they will know from the outset that they will be held responsible for oversight of the audit that they oversee. Naming the engagement partner will not create or support liability where, for example, rogue subordinates engage in misconduct that oversight procedures failed to detect if the procedures are reasonably designed and implemented. Legal liability for failed oversight will only stick where the engagement partner has failed to fulfill his oversight duties.

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We applaud and strongly support the PCAOB's proposal to require the naming of engagement partners and encourage the Board to pursue additional transparency improvements. The grant of privileged, statutory status to public accounting firms must be matched by heightened accountability, but assigning responsibility only to the firms is not enough. Meaningful accountability begins and ends with the kind of personal responsibility that honest, diligent accountants embrace and demand for their peers. The naming of engagement partners will remove anonymity from a process that calls for greater transparency and begin to create a culture of personal accountability for public company accountants.

Sincerely,

Mercer Bullard
President and Founder
Fund Democracy, Inc.

Barbara Roper
Barbara Roper
Director of Investor Protection
Consumer Federation of America

cc by Email and/or U.S. Mail:

PCAOB:
Honorable James R. Doty, Chairman
Honorable Lewis H. Ferguson, Board Member
Honorable Jeanette M. Franzel, Board Member
Honorable Jay D. Hanson, Board Member
Honorable Steven B. Harris, Board Member

Martin F. Baumann, Chief Auditor
J. Gordon Seymoure, General Counsel

[19] Re-Proposing Release at 13.

SEC:
Honorable Mary Jo White, Chairman
Honorable Luis A. Aguilar, Commissioner
Honorable Daniel M. Gallagher, Commissioner
Honorable Kara M. Stein, Commissioner
Honorable Michael S. Piwowar, Commissioner

Keith Higgins, Director, Division of Corporation Finance
Anne K. Small, General Counsel, Office of General Counsel

Grant Thornton

February 3, 2014

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Via Email to comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 029 – Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Dear Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) reproposal of *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*. We appreciate the Board's actions in responding to comments received on the original proposal and we value the importance and ability to provide additional comments on the Board's proposed revisions.

Overall, we support the Board's initiative to improve the transparency of audits to investors and other stakeholders; nevertheless, we continue to have significant reservations regarding the reproposed amendments. We do not agree with the premise that transparency in the form of identifying the engagement partner in the audit report will accomplish the goal of providing information to investors that will better equip them to make informed investment decisions. Such information requires (1) a deeper understanding of the issuer and its business, including its strengths, weaknesses, and the complexities of the industry it operates in; and (2) the ability to make judgments about the engagement partner's capability to properly execute his or her responsibilities in that environment. That level of information is available to audit committees who are already required under the Sarbanes-Oxley Act to select, compensate, and oversee the external auditor. Further, we continue to believe that investors, issuers, and auditors might suffer unintended negative consequences if such disclosures become required. For example, armed only with an engagement partner's name and the publicly available information about that partner's other issuer clients, investors may make buy or sell decisions that are not based on all relevant facts, thus leading to a suboptimal outcome. We do support the notion that in certain circumstances, such as where there is a substantial role, disclosure of the role of others in the audit may be useful, but recommend that the Board adopt the "substantial role" criteria for the threshold. Our specific comments are provided below.

Disclosure of the engagement partner

Unintended consequences

We believe that effective audit transparency provides investors with information that helps them understand the responsibilities of the auditor, management, and others in the financial reporting process; the nature of the procedures performed; and the results of those audit procedures. The goal in providing such information is to enhance investors' ability to make investing decisions that fit within their risk tolerances. It is critical, therefore, that the information disclosed be of such a nature that it is unlikely that it could be misconstrued, thus resulting in investors making inappropriate decisions.

We disagree with the Board's premise that, as described in Appendix 3, *Consideration of Comments*, "investors and other market participants would be able to understand and make appropriate use of the disclosure required by the reproposed amendments." We do not believe it is possible for investors, by knowing a partner's name, to make a truly informed investing decision by connecting views that may exist about audit quality for a certain partner to the expected financial performance of an entity. It is, however, entirely possible for investors to use the partner's name, in the absence of complete information, to make uninformed decisions that they would not otherwise make. Doing so will bring unintended harm to engagement partners, issuers, and ultimately to the investors these reproposed amendments are seeking to help.

We believe the disclosure of the engagement partner in the audit report will not add value to investors and the extent of inappropriate inferences that could be made by investors is problematic. These requirements may also be a disincentive to professionals within accounting firms from becoming audit partners for issuer engagements, given the potential increased liability and other concerns set forth in this letter.

Consents

We do not believe the consent requirements suggested by the reproposed amendments will be operational in all circumstances. We foresee potential issues in situations such as partner retirement, partner rotation, and when a partner changes firms. In these situations, delays would likely occur in attempting to obtain a consent from the original signing partner. This is of particular concern in situations where an entity is filing a registration statement where timing can be critical. We believe that these issues and concerns provide further support for the Board to reconsider the proposal to include the partner name in the auditor's report.

Legal liability considerations

If the Board intends to move forward with the proposal to disclose the name of the engagement partner, we continue to believe that the Board must first collaborate with the U.S. Securities and Exchange Commission (SEC) so as to further consider and evaluate the consent requirements and potential liability implications. We remain concerned that providing a consent may cause one to be deemed the "maker" of a false statement in the financial statements under current judicial interpretations of Section 10(b) of the Securities Exchange Act of 1934. Moreover, we continue to share the concerns expressed by others as to increased liability under Section 11 of the Securities Act of 1933, especially when considering Section 11's lack of a causation or scienter requirement.

Although the Board has noted the potential increase in an engagement partner's liability as a side effect of the proposal, we believe it is necessary for the PCAOB to strongly consider alternatives that would meet the Board's objectives without increasing the liability risks.

We note that even though an engagement partner may ultimately be found to have fully complied with all professional standards and regulatory requirements, being personally named in litigation seriously affects a partner's professional and personal life for an extended period.

Disclosure of certain other participants in the audit

We can understand the need for transparency regarding other participants in the audit, and we support such disclosure noting that some investors or users of the financial statements may find this information beneficial. However, we do not agree with the level of involvement determination of five percent of total hours and recommend that the Board be consistent with its other rules by adopting a "substantial role" threshold. Nor do we believe that the audit report is the appropriate place for such disclosures. Rather, we support the use of Form 2 as the mechanism for disclosure of information related to certain other participants in the audit. We acknowledge that the timing of the accounting firm filings of Form 2 may result in time lags between reporting on financial statements and the availability of information, but we note that such specific reporting requirements could be revised to include a shorter time period for reporting such information.

Network firms

With respect to disclosure of work performed by network or affiliated firms, we support the disclosure of these network or affiliate firms in Form 2, as noted above. However, we continue to believe that the benchmark and disclosure threshold would not provide meaningful information to investors as we do not believe such low level involvement and the potential listing of many participants at that level would provide actionable information to investors. We acknowledge the PCAOB's increase in the threshold from three percent to five percent in the reproposal. However, we believe that five percent continues to be too low to provide meaningful transparency to investors. Consider a smaller reporting company with total audit hours of 600; five percent is 30 hours, which could represent three inventory observations performed in three different foreign locations. This would have to be disclosed under the current proposed requirements, and we question the relevancy of disclosing such information. Perhaps with large, accelerated filers a threshold of five percent appears appropriate, but when applying it to the remaining population of issuers, we believe five percent is too low to provide truly meaningful information to investors.

We strongly recommend that the use of the "substantial role" criteria, as the relevant benchmark for separate disclosure of the names and locations of each of these participating firms, would be a much more useful approach. We would expect those firms that play a substantial role to be similar to those that perform an audit, adapted as necessary, for significant components, as contemplated by the ISAs. In this case, disclosure of the specific percentage of hours for each participant need not be provided, as it would be clear that their role was substantial. We believe this recommendation aligns with the examples provided in the release (page 19) where the Board notes that information regarding "a significant portion of the audit work was performed outside of the U.S. by a firm other than the firm that signed the audit report," and that this information could be particularly valuable to investors.

Specialists not employed by the audit firm
We continue to believe that requiring disclosure of individuals with specialized skill or knowledge not employed by the audit firm is not operational nor would the information provide understandable transparency to an audit. We strongly believe that the percentage of total hours would not accurately portray the relevance of the work performed by specialists not employed by the audit firm. Oftentimes, specialists do not provide information such as the number of hours expended to assist the firm especially in cases where the work can be leveraged among various clients. For example, valuation firms determine pricing for certain investments as of a specific date. That information could be distributed to multiple firms for multiple clients but the pricing itself was done once. Therefore, how would hours be determined for each firm that benefited from this information?

Scope
With respect to the scoping, we believe the requirements should apply to emerging growth companies and issuer broker-dealers. However, we anticipate the same operational challenges described throughout our letter will apply to these entities as well.

We understand the Board's responsibility to respond to investor needs and enhance investor protection. However, we believe that an informed judgment about audit quality cannot and should not be based solely on disclosure of the name of the engagement partner and/or certain other participants in the audit. We believe that the negative consequences related to providing such transparency, including increased partner liability, would be greater than any perceived benefits to the marketplace in general.

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If you have any questions about our response, or wish to further discuss our comments, please contact Jeff Burgess, National Managing Partner of Professional Standards, at Jeff.Burgess@us.gt.com or at (704) 632-3940.

Sincerely,

Grant Thornton LLP

From: Farlen Halikman
To: Comments
Subject: Docket Matter No. 029 -- Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits
Date: Friday, December 27, 2013 10:04:22 AM

When an "ugly 8-K" is filed for an auditor resignation or to report irregularities that result in suspended trading, the online message boards quickly fill with conjecture, accusations and threats against the CPA by parties who lose money, or the opportunity to make money, because the CPA did the necessary thing. People get a little crazy when they lose money. Over my three decades of practice, I have more than once been threatened with violence as a result of fulfilling my professional duty.

Europeans aren't armed to the teeth like Americans are. It seems clear to me that sooner or later, some aggrieved party is bound to shoot an audit partner. Requiring the audit partner's name to be printed in the audit report just makes it easier for them to be hunted down. Those advocating for this rule will bear some culpability when that happens.

ILLINOIS CPA SOCIETY

February 3, 2014

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society ("Committee") is pleased to comment on the PCAOB's Proposed Rule on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (Docket Matter No. 29) dated December 4, 2013. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated.

The Board is soliciting comments on a series of amendments to PCAOB Auditing Standards that would:

- Require the audit report to disclose the name of the Engagement Partner responsible for the most recent period's audit, and
- Require an explanatory paragraph in the audit report about other persons and independent public accounting firms that took part in the most recent period's audit.

General Comments

We agree with the Board's goal to provide additional transparency to investors and other financial statement users. However, there is an underlying assumption in the proposal that publishing the name of the audit partner will in turn increase the accountability of the engagement partner for the audit report, thereby adding more transparency that would increase investor protection. We believe that the proposed changes in the Release will diminish the understanding of investors and other financial statement users by distorting the role of the engagement partner and that of the audit firm. We also believe that the inclusion in the audit report of all participants in the audit process will reduce the perceived responsibility of the firm issuing the audit report and the perceived overall quality of the audit, and we believe the proposed disclosures should not be required.

In issuing the Release, the Board states that its inspections show that there is significant room for improvement by auditors in compliance with PCAOB standards, including those that require auditors to perform an audit with due professional care and professional skepticism. While the Committee does not take issue with respect to these conclusions, we do not believe that lack of accountability by either the audit firm or the engagement partner for the quality of work performed is a significant cause of noted non-compliance. Survey after survey has demonstrated that auditors are among the most trusted professionals. Independence, objectivity and professional skepticism are qualities that audit firms require in their engagement partners on all issuer and non-issuer engagements, and these qualities are routinely evaluated through internal inspections, peer reviews, PCAOB inspections and other quality control practices within those firms. Accordingly, we believe that the audit firms and engagement partners already feel themselves highly accountable for the quality of the work they control, perform and supervise, and therefore identification of the engagement partner in the audit report will not meaningfully heighten accountability or provide additional investor protection. Similarly, we believe audit firms, conscious of the litigation and reputational exposure incurred if audit work is found to be substandard, already assign more experienced and capable partners to public company engagements. Thus, we do not believe the identification of the engagement partner in the audit report will meaningfully impact partner assignments. A better location should the identification of the engagement partner be deemed an important disclosure would be in the proxy statement, though we acknowledge that this is outside the jurisdiction of the PCAOB.

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The Committee is pleased to answer the 25 specific questions posed by the Board.

PCAOB QUESTIONS:

1. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

We believe that the disclosure of the engagement partner's name and information about other participants in the audit will not provide truly useful information to investors and other financial statement users. While the information may be "used" for numerous purposes (ie. statistics on an engagement partner's association with going-concern opinions, restatements, etc), the how, why or to what extent that information may really be "useful" is not evident. It would likely be more "useful" to the investors and other financial statement users for the audit report to disclose the name of the lead attorney who is opining on the status of the significant legal action or the name of the actuary who performed the calculation of the significant benefit obligation. Those activities of legal counsel and the actuary, perhaps having a material impact on the actual financial statements being issued, may be more significant to the user than the name of the engagement partner who performed the audit at a later date.

Investors and other financial statement users will likely believe that the additional information provided is useful to them. However, as investors and users are not as sophisticated as to the nuts and bolts of performing and reviewing an audit, we have significant concerns over how they would use this information. As noted in the Release, the Board has heard concerns that a "rating or 'star' system" could be formed on engagement partners. We agree with this concern and believe that this would in fact occur. Issuers may try to avoid engagement partners that have issued a larger number of material weaknesses, going concern opinions or restatements. In fact, the reporting of these findings may likely have resulted from a highly skeptical, high quality audit engagement. The existence of such items may be a reflection of poor management, but they also may be a reflection of an audit partner acting with due professional care and professional skepticism by raising such issues with management and those charged with governance.

The Board noted that "the underlying principle that consumers of professional services could make better decisions with more information still applies". The users of the information as referenced in the Release are not truly the consumers, as they are not paying directly for the services rendered. Those involved in making the decision as to what audit firm and audit partner are engaged to perform the audit are typically those involved in the proposal process, such as the audit committee. These individuals will be aware of the name and background of the engagement partner through their due diligence performed during the proposal process. It seems investors and other users would only need this level of detailed information if that due diligence was not properly performed, which is a governance and not an audit issue. Including the additional disclosures will not address this problem.

Interestingly, throughout the entire Exposure Draft, the Board repeatedly indicates they believe that the disclosure of the engagement partner's name and other information about other participants in the audit would be "useful" to investors and other financial statement users. However, the Board's belief offers no insight or discussion as to why or how or to what extent this "usefulness" would occur. Indeed, in the United Kingdom, where the naming convention has been required for a number of years, there have been as many or more financial failures, forced acquisitions and the like as there were in the United States since the financial crisis began. Despite knowledge of

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this and the existence of the signing requirement, there have been a number of auditor negligence scandals in the UK since then.

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

We believe that the disclosure of the engagement partner's name and the extent of participation of other participants would not be of much use to shareholders when ratifying the company's choice of auditor – less sophisticated users would not be using this information, and more sophisticated, larger users have alternate sources of information for their due diligence. Furthermore, we believe that such information may misrepresent the true role of the engagement partner and that of the primary audit firm to most users, who do not have clear understandings of the audit process. The primary audit firm is responsible for the audit and the engagement partner is one of several individuals representing the primary audit firm. The extent of participation by other participants may be misinterpreted as to indicate that a higher participation means a lower quality audit than an audit with a lower percentage of participation of others. The extent of the participation may also be erroneously perceived to suggest there is shared responsibility for the audit.

3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

The proposed changes would likely encourage databases and other compilations to be developed to track engagement partners' history. As noted above, such information would only be truly meaningful if those charged with governance did not perform their duties adequately. Additionally, these databases may provide misleading audit statistics as certain information (e.g., material weaknesses identified) can indicate a highly skeptical auditor, which may dissuade certain unscrupulous audit committees from selecting the audit partner.

a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

As described above, such information may likely be used, but whether it would be used for any "useful" purpose is doubtful. There are readily available sources for information about an engagement partner's industry expertise (ie. partner profile included on audit firm website) or involvement in disciplinary proceedings or other litigation (ie. State Department of Professional Regulation). The tracking of an engagement partner's "restatement history" can be misleading since the restatement may not be related in any way, directly or indirectly, to the engagement partner's professional performance. Indeed, as the financial statements are the responsibility of management and those charged with governance, it is arguably true that restatements are not the responsibility of an auditor but that they are the responsibility of the issuer.

While it was stated in the Release that the quality of an audit varies among engagement partners, it is ultimately the audit firm that is responsible for audit quality. If there is a lack of quality in the performance of an engagement by a given engagement partner, the firm should have adequate quality control procedures – including but not limited to Engagement Quality Control Review – to ensure that only the highest quality audit is allowed to be released. By requiring disclosure of the name of the engagement partner and stating that this will help users assess the quality of the audit based on that information, it implies that the engagement quality rests solely with an engagement partner rather than the firm signing the report. We believe that it is the firm that is ultimately responsible for ensuring audit quality, not only the individual engagement partner.

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b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

> Such a comparison to a benchmark, if created, would not be relevant but it would be misleading as so many individuals are involved in the audit process, and there are many ways for management's financial statements to require a restatement. No audit is exactly the same as another audit and to establish a standard or point of reference against which an engagement partner would be measured would be confusing and could lead to unintended consequences to both the engagement partner and the profession. Users outside the reporting entity will likely not be those involved in the decision making process of engaging an audit firm and rather the information will likely be used only to enhance post-audit litigation efforts.

4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

> As described above, such information may likely be developed and used, but to be used for any "useful" purpose is doubtful. The audit report is issued in the name of the audit firm and it is the audit firm that bears the ultimate responsibility for the quality of the work performed. The requirement to disclose other participants may prompt some firms to stop providing the services to primary auditors so as not to be named in the audit report.

5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

> We believe all members of the audit team are important to the overall quality of the engagement, including but not limited to the audit staff members and engagement quality control review partner, not just the individual engagement partner. The audit report is issued in the name of the firm. We also note that the engagement partner's name could change, for example, when a partner gets married. There is no indication of how this would be handled)

6. Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

> We believe that disclosing the engagement partner's name will not promote more effective capital allocation. We are not aware of evidence supporting a claim that the audit firm makes a significant difference in capital allocation, other than perhaps as to the general size of the firm, much less at the more granular engagement partner level. We believe that to even raise such a question highlights an interesting underlying assumption of the proposal about the Board's perception of the influence, power and impact of an engagement partner's name. To further illustrate, Section V, Subsection A the Release includes the following sentence. "Although the names of the engagement partner and certain other participants in the audit are known to company management, they are not known to investors and other financial statement users *despite their potential value in making economic decisions, including investment decisions to buy, hold, or sell shares* [emphasis added]". We question how all of these crucial decisions will be affected simply by knowing the engagement partner's name. Capital allocation does not seem to have been affected by the disclosure of material weaknesses; we do not believe disclosure of the engagement partner would have an effect.

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From a different perspective, the Committee notes that despite being audited by an extremely small audit firm, investors flocked into Bernard Madoff's investment funds. They were buying Madoff and not the auditor, though that firm's name was on all the audit reports. In addition, even though the auditor's name was in the news frequently over a long period of time, we doubt there are more than a few people that could name that auditor.

The reliability of the audit is dependent upon the independence, objectivity and professional skepticism that audit firms require in their personnel, including engagement partners. These qualities are routinely evaluated through internal inspections, peer reviews, PCAOB inspections and other quality control functions within those firms.

7. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

We believe that the proposal to disclose the engagement partner's name and information about other participants in the audit would not necessarily promote or inhibit competition, but it would shift the focus of competition among audit firms. As stated above, the information would be used, but most likely not in a useful manner and most likely not in the best interests of the profession as a whole. The focus would shift to specific names and it would most likely get personal rather than professional.

The Release states as an example of information to be tracked the inclusion of a going concern modification. This is not the result of a lack of quality in the audit performed, and indeed is often a sign of a well-performed audit; this should not be a consideration when selecting an engagement partner for an audit. If this is the type of information that will be accumulated as a result of the disclosure of the engagement partner's name, rather than affect competition in a positive way, engagement partners may be incentivized to take a less conservative approach to audit procedures to avoid issues that may inappropriately damage the engagement partner's perceived reputation because of the specific association of the engagement partner with that issue.

8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

As discussed above, the proposed disclosure requirements would be misleading. Unwarranted inferences could be made, such as disclosure of the engagement partner's name promoting more effective capital allocation, and the assumption that a going concern opinion or a restatement are the "fault" of the engagement partner.

To avoid all misleading disclosures, unwarranted inferences and unintended consequences, for the reasons described above, disclosing the name of the engagement partner and information about other participants in the audit should not be mandated.

9. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

Whatever the costs imposed on firms to disclose the name of the engagement partner in the auditor's report, it will exceed the benefit. To possibly increase a named engagement partner's liability or the audit firm's possible exposure to liability cannot be justified by "the potential benefit of greater transparency" or that it "might provide investors with some additional comfort about the engagement partner's work on the audit". We would request the Board to revisit the prior comments and views on the potential liability effects of its 2009 and 2011 Releases and once again consult with legal counsel.

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We do not have empirical data; however, EGCs may be more likely to have other than unqualified or unmodified audit opinions, which may create much higher risk for the engagement partners and therefore much higher fees to the clients. The SEC implemented smaller reporting company rules with scaled disclosure requirements that are applicable to EGCs. Requiring the additional disclosures may have the opposite impact in that it will increase costs to EGCs much more dramatically than for other public companies.

10. What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

The primary cost would be time. Unless a statement is filed immediately upon issuance, an updating consent would be required. This would also divert a partner's attention from current engagements with an administrative task rather than a core audit task. We do believe there would also be an increase in litigation costs. The engagement partner would also need greater protection of personal resources. This increase in costs of protection for the engagement partner and the firm, insured or otherwise provided by private contracts, would result in higher audit fees.

11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

If the PCAOB requires an individual Partner to be named, we do not see a benefit to adding a consent requirement, certainly not to the extent of the costs required. Engagement partners are currently accountable for the quality of the audit and act as a representative of their firm and not as an individual. As noted above, naming the individual Partner could worsen compliance in that Partners may look to ways of avoiding restatements, going concern modifications or other things that may create a negative record for them. The impact would be greater for EGCs since they may have a greater tendency for modifications.

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

The implication of this question is that an auditor would not be paying close attention to his/her engagement unless his/her name is in the auditor's report. Given the requirements to obtain and keep a CPA license as well as relevant PCAOB requirements, we do not see that CPAs are not committed or accountable for their work. Each audit firm already has internal and external systems of controls and inspections to ensure the accountability of each engagement partner and other participants. Both the engagement partner and audit firm already have the responsibility to comply with professional standards. Disclosing the name of the engagement partner or other participants will not impact accountability. See also our response to question number one.

13. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

Several concepts in the Release are not defined. For example, interim hours, where work might be used in the year-end audit, theoretically should count to the annual disclosure total but this is not clear. Obtaining the complete information from other firms or individuals involved in the audit might not even be possible. It is also

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important to note that hours are not always indicative of audit significance. There could be inefficiencies or over-auditing that would inflate the hours and imply a greater significance than warranted. Also, total hours can be distorted by the use of internal auditors, whose hours are not to be counted according to the Release. It is also unclear if the hours of other participants would need to be audited in order to be included in the disclosures; if so, that would significantly increase both costs and the time to issue an auditor's report. It would be more significant to a user to indicate the areas audited, whether it is a subsidiary or a specific area such as inventory, as opposed to the hours spent by other audit participants.

Also, the Release discusses identifying the home office of the other participants without discussing how that information is more relevant than the location of the office performing the work.

There will be indirect costs associated with the disclosures as a result of the participating firms being more cautious of potential liability. Litigation related costs will increase. It will be perceived that the disclosure of information about other participants will increase the risk of liability to those other participants and additional protection measures will be deemed necessary by the other participants. This will raise audit costs.

Either there will be pass-through costs affecting audit fees or the participating firms will not be as willing to perform a portion of the audit, requiring the primary auditor to incur the additional costs to perform that portion of the audit which may be far away or require specialized expertise. In addition, it is not clear if the participating audit firms would need to become registered with the PCAOB.

The Board notes an assumption that the participating accounting firm would only be liable for misstatements associated with the work performed by the participating audit firm. However, disclosure of the percent of total hours does not provide any information regarding the portion or significance of work performed. As a result, while the participating firm may not ultimately be held liable, they will most certainly be brought into any lawsuits filed. Litigation is extremely costly, and often settlements are paid in order to avoid a trial. As a result, there could be increased exposure and settlement costs to participating firms simply because their names are disclosed.

We do not believe there would be a difference for ECGs.

14. What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

We believe that litigation related costs will increase. It will be perceived that the other audit firm shares responsibility for the audit rather than the current requirement that the principal auditor perform procedures sufficient to place reliance on the work of the other audit firm. This will raise audit costs. See also comments above.

15. Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

All audit firms are accountable for compliance with existing requirements, regardless of any consent requirement. See also comments above.

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16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

A range is likely better and less costly than a specific number. A range will also be more useful than a specific number. The interpretation of specific percentages may vary by user, whereby some users may consider a few percentage points as significant, while other users will only find significance in higher percentages. Also, some interpret specific numbers to be at a higher level of precision; as indicated above, there are factors that can keep percentages from being precise. Ranges will help to provide a basis for the level of significance and create consistency among user interpretations.

We further note that audit firms in other countries, typically with much lower professional labor rates, use significantly more professionals on an engagement – to perform the same general level of aggregate audit effort – than are used in other countries. This phenomenon will distort the information provided by disclosing hours as the metric for other's participation in an audit.

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

While we believe that the disclosure is not appropriate, if it is determined that this will be imposed, then the higher threshold would be more appropriate, with 10% being more significant and representing more useful information than even 5%. This will effectively limit the number of other participants to be disclosed and eliminate from disclosure those participants performing insignificant parts of the audit.

18. Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?

If this will be imposed, then this should not be part of the equation. For example, due to office staff sharing and optimization, this could become difficult to determine. If another office of the same firm is used, presumably the same processes and procedures are in place as at the primary office. The concerns behind this Release and expressed by users pertain to other individuals and firms, not other offices of the primary firm. Such disclosure does not address these concerns.

b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

Yes, it is sufficiently clear.

19. Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

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There may be situations where an alternative practice structure would result in a portion of an audit being performed by a specialist employed by a different but related company than the signing audit firm; however, the related company may be closely connected to the audit firm via common management and/or control. If the disclosure requirement does not apply when multiple offices of the same firm perform the audit, then it should also exclude alternative structures for certain related companies.

20. Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

An auditor is to use tools necessary to complete the audit. If the auditor deems it necessary to employ an “engaged specialist”, then that auditor would be assuming responsibility for the work performed. The disclosure of such information likely would only serve to confuse more than assist. In fact, as indicated above, the names of the “engaged specialist” could be more relevant to the user than the name of the engagement partner; if the engagement partner is required to be named, then so too should be the “engaged specialists”.

We suggest that the Board consider adding a clarification comment that the proposed rule does not apply to specialists engaged by management per AU 336, Section .03a and .03b, but only applies to specialists engaged by the auditor under AU 336, Section .03c.

If specialists engaged by management are intended to be covered by this proposed requirement, we suggest that the Board consider that in certain circumstances, this requirement may result in the auditor needing to disclose management's engagement of attorneys to conduct a privileged investigation that under current requirements would not require disclosure.

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

See comments above. It is unclear how the use of an “engaged specialist” by an “other participant” would be handled under this Release. It may be challenging to clearly understand the meaning of the terms “persons engaged by the auditor” and “other persons employed by the auditor”. Clarification could be added that the Release’s requirement in this area does not apply to specialists engaged by management but only applies to specialists engaged by the auditor.

21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant’s name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant’s location and the extent of the participant’s participation provide sufficient information?

As described above, there may be occasions that the name of a participant may be more useful to investors and other financial statement users than that of the engagement partner’s name. For example, the name of the entity’s real estate appraiser for significant real estate holdings or the name of the entity’s investment advisor for significant investment holdings may be considered useful to investors and other financial statement users. The participant’s location is not meaningful.

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22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

> Duplication of effort and reporting does not seem to be an effective use of time or resources. We believe that public disclosure of the name of the engagement partner and other participants would not provide any meaningful additional investor protection.

23. Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

> The reproposed amendments are not appropriate for brokers and dealers that would not otherwise require SEC filing. Such information is readily obtainable by management and the primary users of the financial statements and the time, cost and effort to obtain the necessary information does not seem warranted.

24. Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

> See comments above. Regardless of the industry or status as an EGC, we believe that public disclosure of the name of the engagement partner and information about other participants would not provide any meaningful additional investor protection.

25. Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

> See comments above. Regardless of the industry or status as an EGC, we believe that public disclosure of the name of the engagement partner and information about other participants would not provide any meaningful additional investor protection.

The Illinois CPA Society appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

James J. Gerace, CPA
Chair, Audit and Assurance Services Committee

Elizabeth J. Sloan, CPA
Vice Chair, Audit and Assurance Services Committee

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APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2013 – 2014

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. These members have Committee service ranging from newly appointed to almost 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:	
National:	
Scott Cosentine, CPA	Ashland Partners & Company LLP
Eileen M. Felson, CPA	PricewaterhouseCoopers LLP
Angela Francisco, CPA	McGladrey LLP
Robert D. Fulton, CPA	Baker Tilly Virchow Krause, LLP
James J. Gerace, CPA	BDO USA, LLP
Jon R. Hoffmeister, CPA	CliftonLarsonAllen LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
Matthew G. Mitzen, CPA	Plante & Moran, PLLC
Elizabeth J. Sloan, CPA	Grant Thornton LLP
Kevin V. Wydra, CPA	Crowe Horwath LLP
Regional:	
Jennifer E. Deloy, CPA	Frost, Ruttenberg & Rothblatt, P.C.
Barbara F. Dennison, CPA	Selden Fox, Ltd.
Andrea L. Krueger, CPA	Corbett, Duncan & Hubly, P.C.
Stephen R. Panfil, CPA	Bansley & Kiener LLP
Local:	
Scott P. Bailey, CPA	Bronner Group LLC
Matthew D. Cekander, CPA	Doehring, Winders & Co. LLP
Lorena C. Johnson, CPA	CJBS LLC
Loren B. Kramer, CPA	Kramer Consulting Services, Inc.
Carmen F. Mugnolo, CPA	Mugnolo & Associates, Ltd.
Geoff P. Newman, CPA	Weiss & Company LLP
Steven C. Roiland, CPA	FGMK, LLC
Jodi Seelye, CPA	Jodi Seelye, CPA
Richard D. Spiegel, CPA	Steinberg Advisors, Ltd.
Timothy S. Watson, CPA	Benford Brown & Associates, LLC
Industry:	
George B. Ptacin, CPA	The John D & Catherine T MacArthur Foundation
Educators:	
David H. Sinason, CPA	Northern Illinois University
Staff Representative:	
Ryan S. Murnick, CPA	Illinois CPA Society

IDW
INSTITUT DER WIRTSCHAFTSPRÜFER

March 17, 2014

Mr. Martin F. Baumann
Chief Auditor and Director of Professional Standards
Public Company Accounting Oversight Board
c/o Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 20006-2803
USA

By e-mail: comments@pcaob.org

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USt-ID Nummer: DE 119353203

Dear Mr. Baumann,

Re.: PCAOB Rulemaking Docket Matter No. 029: PCAOB Release No. 2013- 009, December 4, 2013
Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

The IDW would like to thank you for the opportunity to comment on the above mentioned Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit, released December 4, 2013 (hereinafter collectively referred to as the "reproposals").

It has long been a legal requirement in Germany for auditors to sign the auditor's report in their individual names in addition to disclosing the name of the audit firm. This is also currently a requirement for all statutory audits in the European Union, following the transposition of the Statutory Audit Directive into national law. The IDW does not possess sufficient expertise as to the legal situation and liability regime prevalent in the U.S. to enable us to make informed comments on this aspect of the reproposals and their application in the U.S. We therefore do not comment on the proposed disclosure of the name of the engagement partner in this letter. We would, however, like to express our concerns as to certain other matters addressed in the reproposals.

In this letter we have chosen not to respond to individual questions raised, but to comment instead on those areas with which we have concerns. We would like to stress that our concerns do **not** relate to the disclosure of the name and location of other auditors when under PCAOB Standards there is a division of responsibility through the auditor's reference to the work of other auditors. **Our concerns relate solely to the application of the proposed requirements in those situations in which the principal auditor assumes responsibility for the entire audit or for a specific part of the audit and uses the work of other auditors in so doing, but therefore by definition does not refer to the work of those other auditors.**

We are aware that the PCAOB has experienced considerable practical problems in regard to its mandate to inspect non-U.S. audit firms, and that the idea that other auditors might be named and their locations disclosed in the auditor's report may have originated, in part, from this situation and the PCAOB's desire to ensure that all auditors who play a significant role in the audit of SEC issuers are subject to appropriate oversight. Hence, the PCAOB initiative may in part be intended to facilitate some change in the audit market and oversight practices in particular jurisdictions. The question arises whether naming other auditors when the principle auditor has taken full responsibility for the entire audit is an appropriate response to these issues.

Alignment with Standards Promulgated by the IAASB

As the PCAOB is aware, the ISAs promulgated by the IAASB neither require disclosure in the auditor's report of the names, locations and extent of participation of other public accounting firms and locations and extent of participation of other persons not employed by the auditor who performed procedures on the audit, nor is such disclosure currently proposed. These issues were debated in some depth during relevant consideration of revisions to particular standards during the IAASB's so-called "Clarity Project". The IAASB reaffirmed its previous stance that the potential for inclusion of such information to detract from a proper understanding of the auditor's sole responsibility for the audit outweighed any benefit to users of such disclosure; a conclusion we believe remains valid.

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Disclosure of the Names of Other Audit Firms – Implications for the Audit Market

We do not believe the disclosure in the auditor's report of the names of other independent public accounting firms who participated in the audit – in the manner proposed – will enhance audit quality, nor that the benefit to investors would outweigh the various potentially detrimental consequences, which we discuss below.

Our concerns are twofold. Firstly, disclosure of names of other firms could have an adverse impact on perceptions of the principal auditor's responsibilities. Secondly, such disclosure could constitute interference in the audit market in specific locations, which might be particularly detrimental to less well-known and smaller and medium-sized practices and firms (SMPs), even when they perform their audit work up to standard. We discuss each of these aspects below:

Given that, other than when a division of responsibility exists, when reference is made to other firms in the auditor's report one auditor assumes full responsibility for the audit of a particular issuer, investors ultimately need to have sufficient confidence in the proper conduct of the entire audit by that auditor; the principal auditor. The PCAOB's Auditing Standards establish what "proper conduct" for the principal auditor shall encompass. The PCAOB inspections mandate serves to ensure that the independent public accounting firms that audit the financial statements of an issuer or otherwise play a substantial role in such an audit comply with these Standards. Any perceptions that the principal auditor's responsibility may be less than clear cut could introduce unease within both the market for audit services and the capital market, as it would blur the distinction between the division of responsibility and sole responsibility.

In our view, disclosure of the names of certain other firms will not help issuers in assessing the quality of the audit in the way which they may need to, i.e., such disclosure cannot answer questions as to whether a proper audit as a whole was performed. Nor do we believe that merely naming other participating firms will drive a change in behaviour in the manner anticipated on page 20 of the Release: "Transparency could discourage practices that would not withstand scrutiny to go unchallenged, at least until they are discovered by regulators". Clearly transparency cannot be an acceptable substitute for oversight; nor, in our view, should it be directed towards forcing behaviour in particular jurisdictions. Far more effective action will be needed to address significant problems remaining unresolved in respect to specific jurisdictions.

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At best – when the name of the other independent public accounting firm is known to investors and the firm enjoys a good reputation – the proposed disclosure may lend some confidence to investors in regard to the audit. However, at worst – when a firm is unknown and investors are uninformed as to that firm – it could undermine confidence in the entire audit and ultimately impact the audit market in the specific location, even when such lack of confidence is unjustified. As a result, investor pressure could lead to substitutions of firms that are unwarranted. Indeed, the Release itself points out that similar behaviour has already been observed in a study based on Form 2 disclosures. We believe the reproposals would likely exacerbate this scenario, and would be particularly detrimental to SMPs that perform audits up to standard.

In conclusion: we believe that requiring the principal auditor perform the audit to a suitably high standard, which would include an appropriate level of involvement on the part of the principal auditor in audit work performed by other firms, would be a far more effective way protecting investors' interests than simply naming other firms, their respective locations and participation levels.

Proposed Threshold for Disclosure as to Other Participants in the Audit

Although we certainly appreciate the need to address situations such as those described on pages 19 and 20 of the Release, where the auditor signing the report performed little or none of the audit directly, these are extreme cases, which certainly do not appear to warrant the significantly lower threshold for naming other audit firms currently proposed. For these reasons, the proposed threshold for disclosure of other participants in the audit at 5 % of total audit hours is not appropriate. Audit hours, in any case, are not likely to be the most suitable criterion for gauging the significance of participation, since routine detailed work performed at a junior level is likely far more time intensive than e.g., high-level considerations by the engagement partner. We would also question the usefulness of disclosure at the level of detail proposed (e.g., proposed paragraphs 14C et seq. of AU sec. 508 "Reports on Audited Financial Statements"). In our opinion, the proposed disclosure does not appropriately reflect the relative significance of participation in the audit, and is unlikely to serve investors' needs adequately.

Although we do not see merit in introducing the disclosure thresholds proposed in respect of either other firms or other persons participating in the audit, we do, however, appreciate that investors may be interested in having easier access to information about those firms that played a substantial role in an individual audit.

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Notwithstanding our concerns as to the impact of naming other firms in the auditor's report explained above, we accept that information about firms that play a significant role in the audit of an issuer may indeed be of interest to many investors. These firms are already required to be registered with the PCAOB and are subject to PCAOB oversight. The definition of substantial role also takes the significance of the firm's role to the entire audit into account; whereas audit hours do not. This information is, however, already publically available on Form 2 that each PCAOB-registered firm is required to submit annually. It is not currently straightforward for investors to see which firm plays a substantial role for any given issuer. In our opinion, disclosure of this information could be useful, but, as mentioned above, a medium other than the auditor's report would be more appropriate.

Change of Proposals in Respect of Expertise, Affiliates and Offshoring

We note that in its 2012 Release the Board did not originally propose disclosure of persons engaged by the auditor with specialized skills or knowledge in a particular field other than accounting or auditing. The reproposals now include disclosure of the fact of such involvement, its location and the extent of participation, but without identification of the specialist by name or any indication of the area of expertise. We are not convinced as to the usefulness of this information, and do not believe the focus on location is likely to be helpful. In our opinion, a risk-based approach aimed at ensuring the principal auditor's involvement in the audit is appropriate, and in total would be more beneficial to investors in terms of its impact on audit quality.

Role of the Audit Committee

Issues associated with the involvement of other firms in each individual audit may not be clear-cut. Accordingly, those charged with governance may well need more detailed information than the name, location and percentage of hours worked to make rational decisions related to the suitability of other participating firms, and by deduction of the principal auditor.

We note that PCAOB AS No.16 paragraphs 10(d) and (e) already ensure a high degree of transparency in the auditor's communications between the (principal) auditor and the audit committee concerning audit participation. In particular, this enables members of the audit committee to make an informed decision in their auditor selection procedures. In our opinion, the audit committee is the most appropriate body to benefit from this level of detail, because the audit committee is also in a position to ask the principal auditor for further information, clarify any

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potential misunderstandings and, where appropriate, address any difficulties or allay any concerns etc. In contrast, investors and the general public will not generally be able to engage in two-way communication. Thus, as we have discussed above, investor pressure to the extent that is based on uninformed assumptions or prejudices could potentially have an unwarranted impact on the audit markets within and outside of the U.S.

We hope that our views will be helpful to the PCAOB. If you have any questions relating to our comments in this letter, we would be pleased to be of further assistance.

Yours very truly,

Klaus-Peter Feld
Executive Director

Gillian Waldbauer
Technical Manager

541/584

The Association of
Accountants and
Financial Professionals
in Business

January 21, 2014

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

PCAOB Rulemaking Docket Matter No. 029

Dear Board Members:

The Financial Reporting Committee (FRC) and Small Business Financial and Regulatory Affairs Committee (SBFRC) of the Institute of Management Accountants (IMA) are writing to provide their views on the proposed auditing standards contained in PCAOB Release No. 2013-009 dated December 4, 2013 (ED). These proposals, designed to improve the transparency of audits would require disclosure in the auditor's report of (1) the name of the engagement partner, and (2) names, office locations and percentage extent of participation of accounting firms and other persons in addition to the signing firm who took part in the audit.

The IMA is a global association representing more than 65,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. The SBFRC addresses issues that impact small and medium-sized organizations. On behalf of IMA's members, the SBFRC engages and suggests solutions to standard-setters and regulatory agencies such as the Financial Accounting Standards Board, Securities and Exchange Commission, International Accounting Standards Board, Small Business Administration, American Bankers Association, Internal Revenue Service and others. Information on both committees can be found at www.imanet.org under the Advocacy section.

Overview

The FRC commented on the Board's 2011 Exposure Draft that called for essentially the same disclosures, although the current ED has refined the guidelines for the second part. In that earlier letter, we supported disclosure of the name, headquarters location, and measure of involvement of other independent public accounting firms and other persons that took part in the audit. We continue to do so and believe that the changes the Board has made in the latest ED will allow for more effective implementation of a new standard provided the additional matters noted below are addressed.

However, we did not and do not support disclosure of the name of the engagement partner. In our earlier letter, we agreed with one Board member and others who indicated that there was no clear evidence that

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the principal objective of improved audit quality would be achieved by such disclosure. While the Board now seems less attached to that particular justification for the disclosure, rather than backing away from the requirement, the Board has added a new objective – that it will aid investors in making investment decisions. We question whether the PCAOB should be dealing with investor decisions and further question whether the information would actually be useful to investors.

Information about other accounting firms, etc.

As we noted in our earlier letter, investors are generally unaware of the fact that audits of global companies usually involve accounting firms that, while possibly operating under a common name, are actually separate legal entities in different parts of the world. Inclusion of the information suggested in the ED will improve users' understanding of who conducted the audit. This may be particularly interesting information to users if material portions of the audit work are performed by firms that are located in countries that are not subject to PCAOB inspection.

We note, with agreement, that the Board has made some practical decisions in revising the guidelines for what entities would have to be disclosed. The minimum of 5% rather than 3% is consistent with the suggestion in our earlier comment letter. And allowing the use of estimated hours for the ranges to be used is also consistent with our comment about providing some guidance about how hours could be gathered and measured.

There are two further matters described below that we believe require attention.

- We are concerned that disclosing the names of participating firms, locations, and percentages of participation may tell only half the story. The rest of that story is what the signing firm has done to assure itself that it can take responsibility for the overall audit. At audit committee meetings of corporations, a good deal of attention is paid to the auditing firm's quality control procedures and how they have controlled the overall audit, particularly when much of the audit was performed in far flung locations. If this supplemental information is not added to the auditor's report, then the audit committee may feel compelled to say something in its report. However, that report appears only in the proxy statement and not in the 10-K/Annual Report to shareholders. So we urge the Board to reconsider whether further explanations are needed in the auditor's report.

- Before proceeding with this requirement, we believe the Board needs to perform further research regarding the practical implications of registrants' ability to access capital markets in a timely manner. More specifically, to what extent would the other named firms need to provide consents in registration statements? Effective timing of registration statements for both debt and equity is often made in the context of days or even hours to optimize the cost of capital. This can be accommodated in today's environment whereby a registrant is coordinating with one lead audit firm and partner. Any requirement to obtain consents from other firms will unavoidably add delays to the process, particularly in the case of multi-national companies. This might also argue for a slight increase in the minimum 5% threshold for individual firm identification. We recognize that investors and other users may benefit from more fulsome information about the details of the performance of the audit. But that objective has to be balanced against the benefit of greater flexibility in controlling the cost of capital.

The Association of Accountants and Financial Professionals in Business

Naming the engagement partner

In our earlier letter, we quoted Board member Dan Goelzer who in his statement at the meeting adopting the first ED said, "In my view, the Board would need more evidence than it has now to conclude that partner identification would improve audit quality." We agreed. However, Goelzer also said, "The partner's name may be relevant to the shareholder vote on selection of the auditor. However, the disclosure requirements of the federal securities laws, including the proxy rules, are administered by the Securities and Exchange Commission. Unless engagement partner disclosure can be directly linked to improving audit quality, or to promoting understanding of the financial statement audit, or of the Board's inspection program, the issue would seem to fall in the SEC's bailiwick." Notwithstanding that view about the Board's legal responsibilities by former Board member Goelzer, the PCAOB has now revised its objective for the disclosure of the name of engagement partner. Rather than improving quality (which is still a secondary objective), the Board now states "Identifying the engagement partner … will increase the usefulness of the auditor's report for investors when making their investment decisions, as well as when voting on the ratification of a company's choice of accounting firm as its auditor" (from PCAOB press release announcing the ED).

Naming the engagement partner, by itself, would be of very limited value. However, the Board believes that service providers will step in and create data bases. The data bases would match names with information about company specific matters such as restatements, going concern opinion modifications, and enforcement actions. Also, over time such data bases could be populated with individual specific information such as education, speeches, publications, industry experience through work on other audits, awards, etc. The Board speculates that somehow users would find this to be meaningful in making investment decisions. Based on the experience of many of us as corporate accountants participating in the process of assisting the audit committee in engagement partner selection and as public accountants from the other side of that process, we believe the collection of public data on engagement partners at best will only be incomplete and, in many cases, misleading.

First, the package of information that is gathered and considered by audit committees is much more robust than could ever be included in a public data base. And much of that information is confidential, such as recommendations from previous audit committees served. Audit committees carefully scrutinize partners' qualifications during the partner rotation process and this often involves tradeoffs among several candidates with different experience and other personal characteristics. In-depth interviews determine the final choice, not some limited data gathering.

Second, the type of material that might be gathered as suggested by the PCAOB is slanted toward the negative and is not necessarily a measure of a particular partner's performance. For example, a restatement may be occasioned by many factors, the principal responsibility for which could be directed to (1) an earlier engagement partner, (2) the current partner, (3) more than one partner, (4) no partner as it involves, for example, a change in interpretation by the SEC staff. Also, a going concern modification, rather than being a negative factor, as seems implied in the ED, may actually be a positive as it represents an engagement partner taking a tough stand that may cause harm to a client. These disclosures may have unintended consequences of actually misclassifying any so-called quality indicators to specific partners.

The Association of Accountants and Financial Professionals in Business

Third, it will take years for any sort of reasonably complete data base to develop. Even at that point it is likely to include only certain information and be difficult to keep up to date. Who would be willing to finance the development of such a project that would be of very questionable value for years and years? Has the PCAOB asked those users who say they want this information if they would pay for its development? Has the PCAOB investigated whether any third parties have any actual interest in doing this?

Thus, we simply do not see how this proposed new disclosure is likely to lead to improved investor information, even assuming that is the PCAOB's responsibility. In reading the latest ED and scanning the comment letters on the earlier ED, we are left with the impression that "some users want this information" and the Board "believes" it would be meaningful. But the latest ED provides little, if any, evidence for this belief. In the words of Board member Jeanette Franzel at the meeting when the latest ED was adopted, "I'm starting to think that naming the audit engagement partner in the auditor's report is a solution in search of a problem."

We also continue to reject the notion that naming the engagement partner will improve audit quality. As noted in our earlier letter, when authorizing issuance of audit reports or certifications or sub-certifications of financial reports in the case of corporate accountants, there is already full, personal responsibility pursuant to Sarbanes-Oxley and otherwise. We cannot fathom that there is another level of quality to which accounting firms can somehow rise as a result of the engagement partner having his or her name included in the report and feeling more "accountable."

Closing

We appreciate the opportunity to express our views on this ED. We would be pleased to further explain these views or provide additional information at your request.

Sincerely,

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
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Chair, Small Business Finance and Regulatory Committee
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ICGN

International Corporate Governance Network

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C.
20006-2803
USA

Submitted via email: comments@pcaobus.org

11th March 2014

Dear Office of the Secretary,

Re: PCAOB Rulemaking Docket Matter No. 029, Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit.

We are writing on behalf of the International Corporate Governance Network (ICGN). The ICGN is a global membership organisation of over 600 institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of US$18 trillion.

The ICGN's mission is to inspire and promote effective standards of corporate governance to advance efficient markets and economies world-wide. In doing so, the ICGN encourages cross-border dialogue at conferences and influences corporate governance public policy through its committees. We promote best practice guidance, encourage leadership development and keep our members informed on emerging issues in corporate governance through publications and the ICGN website. Information about the ICGN, its members, and its activities is available on our website: https://icgn.org/.

The Accounting and Auditing Practices Committee (A&A Practices Committee) addresses and comments on accounting and auditing issues from an international investor and shareowner perspective. The committee through collective comment and engagement strives to ensure the quality and integrity of financial reporting around the world.
https://icgn.org/committees/itemlist/category/24

We appreciate this opportunity to comment on PCAOB Rulemaking Docket Matter No. 029 regarding "Improving the Transparency of Audits". This would require audit firms to disclose the name of the engagement partner as well as the names of other firms and persons that worked on the audit. We strongly support this enhanced disclosure for two key reasons.

First, transparency is a critical part of ensuring greater auditor accountability to shareholders, the ultimate clients. Specifically, with respect to the disclosure of the audit partner, not all audit partners are the same. It follows that shareholders would want to know the identity of the lead audit partner and/or engagement partner. Considerable research demonstrates that the engagement partner can impact audit quality. (See, for instance, http://www.ifac.org/sites/default/files/meetings/files/20130415-IAASB-Supplement_to_Agenda_Item_2-Question_12_Responses-Disclosure_of_Engagement_Partner_Name-v1.pdf).

Secondly, as well as improving accountability, this transparency can impact behaviours. The lead audit partner has more at stake in terms of his/her reputation, and that generates an incentive to ensure a high quality audit. These benefits are increasingly appreciated and explain why a growing number of countries require disclosure, including for instance the UK, Australia, Taiwan, and Sweden. In fact, Australia has practiced this for many years. Rulemaking docket 029 also refers to making public 'other audit participants.' We support this so long as it does not compromise clarity as to who is the audit engagement partner responsible for the audit. In the case of dual auditors, the scope of the work undertaken by each should be clear.

We strongly agree with PCAOB Chairman, Jim Doty's statement on December 4, 2013, that the capital markets understand that "audit quality is not equal, and that they [capital markets] are willing to pay more for reliable audits, in the form of reduced financing costs for companies that have such audits. The corollary is also true: markets demand a premium cost of capital from companies that present an audit report that is perceived to be less reliable." We further agree that the disclosure would "require no new work by the auditor."

We agree with Chairman Doty that this PCAOB proposal "is a way to use the motivating power of our markets to incentivise higher quality audits. But to do so, the markets need information." Unfortunately, there are still numerous examples of where audit quality has been lacking that has resulted in misleading accounting, frauds, and substantial losses to investors (e.g., Longtop Financial Technologies Ltd., Olympus Corp., and Satyam Computer Services Ltd. to name a few).

The ICGN strongly supports the prompt issuance of a final standard implementing the Proposal and we appreciate your taking into consideration the views of long-term investors. Should you need any additional information, please do not hesitate to contact Kerrie Waring, ICGN Managing Director at +44 207 612 7079 or kerrie.waring@icgn.org

Yours sincerely,

Elizabeth Murrall

Chairman, ICGN Accounting and Auditing Practices Committee

Michelle Edkins

Chairman, ICGN Board of Governors

Cc: ICGN Board Members
ICGN Accounting and Auditing Practices Committee

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February 27, 2014

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit; Docket Matter No. 029

Dear Ms. Brown:

The Investment Company Institute[1] appreciates the opportunity to comment on the Public Company Accounting Oversight Board's proposed amendments that would require disclosure in the auditor's report of the name of the engagement partner.[2] The Proposal indicates that the Board believes that disclosure of the engagement partner would provide investors with important information about audits conducted for their benefit.[3] We are concerned that the Proposal as currently structured could impair the ability of investment companies and other issuers to access capital markets on a timely basis. In particular, if the engagement partner is unwilling or unable to consent to being named in the auditor's report, then the issuer would be unable to incorporate its audited financial statements into its registration statement and would be unable to conduct the planned offering. If the Board requires identification of the engagement partner, we recommend disclosure outside the auditor's report.

Section 7 of the Securities Act of 1933 (1933 Act) requires issuers to file with the Securities and Exchange Commission the consent of any accountant who is named as having prepared or certified any part of a registration statement filed with the Commission. Registration statement forms prescribed by

[1] ICI is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds, and unit investment trusts. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of $16.1 trillion and serve more than 90 million shareholders, and there are approximately 1,900 independent directors of ICI-member funds.

[2] *See Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*, PCAOB Release No. 2013-009 (December 4, 2013) (the "Proposal").

[3] The Board cites investor comment, empirical research, and its oversight experience as basis for its belief that the proposed disclosure would benefit investors.

the Commission require audited financial statements to be included or incorporated by reference into the registration statement.[4] Accordingly, we believe an issuer would be required to file a consent of any engagement partner named in the auditor's report included in a registration statement in order for the Commission to declare that registration statement effective.

Mutual funds offer their shares daily and maintain an "evergreen" registration statement. A mutual fund with a December 31 fiscal year end would deliver its annual shareholder report including audited financial statements to its shareholders no later than March 1.[5] That fund would update its registration statement by filing a post-effective amendment that includes or incorporates by reference the annual shareholder report including audited financial statements no later than May 1.[6]

If the engagement partner has resigned or retired from the audit firm after March 1 and prior to May 1, the partner may be unwilling to provide the required consent. The engagement partner may be unable to provide the required consent due to death or disability. In order to avoid this outcome, if the Board determines to require identification of the engagement partner, we recommend disclosure outside the auditor's report.

* * * * *

If you have any questions, please contact the undersigned at (202) 326-5851 or smith@ici.org.

Sincerely,

Gregory M. Smith

Gregory M. Smith
Senior Director – Fund Accounting

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[4] For example, Item 27 of SEC Form N-1A, the registration statement form for open-end investment companies under the 1933 Act and the Investment Company Act of 1940 (1940 Act) requires the fund to include audited financial statements as prescribed by Regulation S-X. Item 28(j) of Form N-1A requires the fund to file any opinion, appraisal, or ruling, and related consents relied on in preparing the registration statement and required by section 7 of the 1933 Act.

[5] *See* Rule 30e-1 under the 1940 Act.

[6] *See* Rule 8b-16 under the 1940 Act.

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14 March 2014

Office of the Secretary
Public Company Accounting Oversight Board
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USA

Dear Sirs,

PCAOB Rulemaking Docket Matter No 29
PCAOB Rulemaking Docket Matter No 34

As a recently appointed member of the PCAOB Standing Advisory Group I am writing in support of the PCAOB in their proposal to improve audit quality and transparency by requiring registered public accounting firms to disclose the name of the partner responsible for signing the audit report (Docket No 29) and the proposal to revise the auditing standard regarding the Auditor's Report and the Auditor's responsibilities regarding other information.

In 2011, I delivered the annual Aileen Beattie memorial lecture for the Institute of Chartered Accountants of Scotland (ICAS), an honour also bestowed on your chairman, James Doty, in 2013. My lecture contained a number of matters which I felt needed to be considered if our profession is to deliver a service to publically quoted companies that is relevant in today's (and future) global and local market places. I indicated that the "stool" of corporate reporting needed three strong legs in order to stand the weight of expectation from the investor community. It needs a robust financial reporting framework, quality auditing and reporting and effective, transparent, corporate governance, this latter part being partly delivered through the report of the audit committee. Without these three legs there is always scope for deficiencies in the information provided within financial statements all of which is relied upon by the investor community. It is also true that there is a need for all three legs to make their own contribution and one leg should not take on the task of rectifying any deficiencies in the other two. The audited financial statements underpin all other corporate reporting, whether it is quarterly and half yearly trading updates, preliminary announcements or analyst briefings, so it is essential that they contain sufficient, balanced and relevant information for the investor and the wider stakeholder community to understand the risks within the company.

My lecture notes contained a number of messages, all of which were designed to facilitate change in the auditor, company and stakeholder relationship and to ensure the information reported in the financial statements is helpful in commenting on the risks within the business. Only in this way will we ensure that we were continually developing the relevance of the work we do and be recognised as working in the public interest.. The audit model and auditor reporting has not changed very much in the 150 years that ICAS (the oldest accounting institute in the world) has been in existence. Techniques have changed and the scope has, to a degree, changed but the fundamentals of auditor engagement and reporting have not. As a result of more focus being put on company and auditor reporting following the financial crisis it has become evident that now is the right time to change.

The conclusions I drew in 2011, and therefore the basis for my support for the PCAOB proposals, were contained in the following extract from the lecture:

"So how can we or should we be delivering on the mission to always undertake our work in the public interest? As I have said throughout this lecture, there is a need for the profession to do more in order to meet the ever increasing needs of the various stakeholders.

- ***Firstly, let us get company reporting right.*** *The need for the corporate report to tell the story of the business in a much more concise manner, focusing on the business model, the strategy, the key business risks and the rationale for believing the company is a going concern, both in the short and medium to long term, is an absolute necessity. The responsibility for this lies, primarily, with the preparer but the auditor also has a role.*

- ***Let us deepen our role of the auditor.*** *There is potentially a need for auditors to do more in relation to going concern but how far should this go? As stated earlier, the auditor should opine on information provided but if the company does not disclose matters ….. then the auditor is likely to be asked to provide that information.*

- ***Let us expand the role of the auditor beyond the numbers and the statutory disclosures.*** *The desire of users for some form of assurance over the front half of the Annual Report is evident - auditors will need to adapt to meet that demand.*

- ***Let us expand the auditor's reporting.*** *The need for greater insight to be given publicly as to what happens behind closed doors in the audit process. The auditors' engagement with the audit committee and with management is crucial. The big debate is how should this information be conveyed externally – should it be through the audit report or through the report of the audit committee. This is fundamentally important to the whole question of auditor communication not only to users but also to supervisors and regulators. In my view, the audit committee report is the right vehicle.*

- ***Let us accept the need for more professional scepticism*** *and ensure that we build this into our day to day activities,*

- ***Let us contribute to better Company Stewardship.*** *There is a need for greater engagement with the investor community but as yet it is undecided how this could be best achieved. This is very important but if we get our mission 'right' by dealing with the points I have just made then perhaps this would, in essence, already have been taken care of.*

And, during this whole debate we must ensure that the auditors' independence and integrity is not impaired or compromised."

When I look back on these conclusions it is evident that we have come a long way in many jurisdictions around the world to plug what I call "the information gap"; a better description than the "expectation gap" which is a term so often used when considering what the investor community wants and the company and the auditor provides. We cannot provide all the information the various stakeholders seek but the current reporting model does need improvement and there is still a long way to go in most jurisdictions, including the United States.

We do need more work on corporate reporting as in some areas it is too complicated and does not always identify the key risks being, or likely to be, experienced by the company. This applies to all national and international accounting standard setters. The financial crisis has shown that there are areas where more is required from the financial reporting framework and this should be addressed by the accounting standard setters and not leave it to the audit standard setters to "plug the holes".

There is more to do on going concern by the company, and this is where the financial reporting framework could again help by having more requirements put onto company management to report formally within the financial statements. Additional requirements under auditing standards will help change the work the auditors do and how they report on this crucial area. In the UK this is now required and has been a positive move forward.

I think that the information in the front half of financial statements is extremely important both in relation to the present condition and the future prospects of the business and therefore there is more that the company and the auditor can do in relation to this information. It is appreciated that opining on future events is both difficult and dangerous for the auditor. Having said that, there are other judgements that need to be made throughout the audit of the financial statements so, as long as the auditor ensures that the reporting by the company is consistent with their knowledge of the company which is obtained during the course of the audit, why not say so in the audit opinion?

Expanding auditor reporting in my view is an essential part of the move to better quality auditing and more meaningful financial reporting. As I stated in one of my bullet points above, the information on the risks within the business should be provided by the company through its business review and through the audit committee report, however, the work undertaken by the auditor to mitigate the impact of those risks to ensure that there is no material error within the financial statements is also extremely important and useful to external stakeholders. This information forms the basis of audit committee / auditor discussion so should be pertinent to the investor community. Clearly, some matters are commercially sensitive but this should not be used as an excuse to withhold information that it critical to understanding the company's financial position.

During 2010, 2011 and 2012, I was very active in Europe on matters relating to the audit market, corporate governance and financial reporting as President of the Federation of European Accountants (FEE). In addition I was a member of the International Auditing and Assurance Standards Board (IAASB) Consultative Advisory Group (CAG). Consequently, I was heavily involved with the proposals put forward by the European Commission and the European Parliament primarily relating to changes within the audit profession. It became clear very early in 2010 that change was required and demanded. It was at this point I requested that auditor reporting should be much higher up on the agenda of the IAASB whose standards were being used throughout almost all of Europe in one form or other. The IAASB did take this, and other input, into account when formulating there future work plan and fast tracked the revision of the auditing standard on audit reports (ISA 700). At the same time there were discussions taking place in the UK where they too were moving in the same direction. Both these were positive moves in my eyes and the proposals being put forward by the PCAOB by the release of these two rulemaking dockets are equally seen as a positive move for the global economy.

Turning to the two areas currently being debated in the US in relation to these matters.

Rulemaking Docket 29

In my view the inclusion of the name of the partner responsible for the audit engagement and for signing the audit opinion on behalf of audit firm improves accountability and transparency. I do not, however, believe that other firms or individuals should also be disclosed. The auditor who signs the report is the one responsible for the whole engagement and the inclusion of other names has the potential to dilute the perception as to who is ultimately responsible. If a large amount of the work undertaken is performed by firms or individuals not under the direct control of the audit engagement partner then additional procedures are required to enable the engagement partner to sign the opinion as he/she has this ultimate responsibility. As is the practice in Europe, I suggest that the name is disclosed at the end of the report where the opinion is signed and that the signature is that of the person responsible not the name of the firm.

There are numerous reasons why the naming of the engagement partner enhances transparency and quality, many of which are included in other comment letters received by the PCAOB. Consequently, I do not intend to recite them here. One important effect, however, is to more easily identify and evaluate the engagement audit partner’s experience within the sector in which the client operates and the extent of his/her workload on publicly quoted companies within the audit firm. These are particularly important when assessing the quality of the work being undertaken and the time availability of the individual auditor.

Rulemaking Docket 34

The work undertaken by IAASB, the European Commission and the Financial Reporting Council (FRC) in the UK is moving the reporting framework for auditors in one direction and that is towards providing more detail of what an audit is, enhancing the information provided on audit performance and moving away from just a pass / fail model. The pass / fail model will still exist but the reasons behind the pass or fail will be more transparent.

Given the global nature of business it is therefore important that the US keeps itself aligned with the rest of the world. The PCAOB proposals go a long way towards closing this gap and should be encouraged but alignment would be preferable. Convergence in auditor reporting across the globe will improve understanding and enable comparison to be made from one jurisdiction to another. The opinion should use the same terminology, definitions and criteria if confusion is to be avoided.

The answer to most of the questions raised in the first public consultation on Rulemaking Docket 34 is “yes” but I consider one omission which should be included is specific reference in the audit report to the going concern basis of accounting adopted by the company and the auditor's conclusion on this issue. The comments on this aspect could be included as a critical audit matter as in the majority of cases it is relevant to many of the judgements being made. Much of this information should already be contained in the MD&A so it is not a significant move to link all the disclosures.

Regarding critical audit matters, these should be kept to a few rather than many. Depending on the complexity of the company / group I would expect these to be between five and ten each year. They are not the identified risks of material misstatement contained in the initial audit plan but those which required most consideration by the company and the auditor and which were critical in the understanding of the company's financial position and its internal control assessment. The proposed "Auditors Discussion and Analysis" will in my view lead to too much information being included and could detract from the important areas of judgement being made. In this regard the enhanced audit opinion should provide better information to the reader and not focus on just providing more information.

Disclosure of critical audit matters has many benefits. Comparison of critical audit matters reported from one year to the next provides the reader with useful information on whether there is a changing profile to the risks within the business. This is an important element in order to understand the shifting nature of corporate risk and is, once again, an important indicator to stakeholders.

As I mentioned during the Aileen Beattie lecture, I believe that the reporting by the audit committee should also be enhanced as it is here that information on the company should be addressed and not provided by the auditor. This is addressed in the second public consultation document and the answer here is "yes". The role of the auditor is to opine on the information provided by the company and only supply the information if there are shortcomings in the company's reporting. This is a clear dividing line and one that should continue. It is primarily management's responsibility to provide company specific information not the auditor's.

Personal experience of changes to audit committee and auditor reporting

In the UK, September 2013 saw a change in the FRC requirements on reporting to shareholders by both the audit committee and the auditor. As the chair of one audit committee and a member of another, the reporting in the 2013 financial statements saw a significant change in this regard. Reflecting on the positives coming out of this experience there was certainly greater engagement between the audit committee and the auditor. The audit committee focussed heavily on the key matters within the financial statements and were far more engaged with management and the auditor to ensure appropriate judgements were being made and that the reporting of these judgements was appropriate. There was also more detail provided by the auditor to the audit committee as to how they had addressed key matters and how they had satisfied themselves as to the key judgements. Altogether it was a positive experience with few, if any, negative comments from audit committee members or auditor. At the end of the process I believe that both parties benefitted from the new reporting model. There was robust debate but no differences of opinion as to what should be reported in the financial statements. The requirement in the UK to ensure that the financial statements, as a whole, must be fair, balanced and understandable also helped when drafting the disclosures.

From an auditor perspective, it was reported that the new requirements had increased the awareness of the whole audit team regarding the importance of the work being undertaken and also increased the level of scepticism being exercised. They felt that their work was having a more direct impact on the audit opinion itself. They also felt that they were providing useful information to the wider stakeholder community that required a higher degree of evidence to be obtained in order for it to be included in the auditor's report. Consequently, more engagement by the audit team in the audit and more evidence collected during the course of the audit.

Overall there was certainly better reporting by the audit committee and, I am sure, an improvement in audit quality as a consequence of the changes made.

I trust that my observations will be of use to the Board when it deliberates over the next steps to be taken in relation to this very important subject.

Yours sincerely

Philip Johnson

From: AL KHAN
To: Comments
Cc: AD Khan
Subject: Naming engagement partner
Date: Monday, February 03, 2014 6:47:04 PM

This would be a good start to to providing transparency on Auditor's Report. It would also help if the engagement partners number of years experience since he /she became a CPA is also indicated. Like stating " CPA - 1982". This would indicate that an experienced CPA was the engagement partner.

Al Khan (CA-Scotland-1968)
P.O Box 4106, Metuchen, NJ 08840

Sent from Windows Mail

February 3, 2014

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Exposure Draft on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (PCAOB Release No. 2013-009, December 4, 2013; PCAOB Rulemaking Docket Matter No. 029)

Dear Ms. Brown:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board ("PCAOB") Exposure Draft on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (the "ED"). Our comments reflect an academic perspective from our involvement in audit research and education over more than three decades and the interface of our academic experiences with our respective audit standard-setting and regulatory activities.

The ED would require disclosure in the auditor's report of the name of the engagement partner; the names, locations, and extent of participation of other independent public accounting firms that participated in the audit; and the locations and extent of participation of other participants not employed by the auditor that took part in the audit. Below we comment on some specifics of the ED, but we also address various issues related to the analysis of economic considerations as discussed in the ED, including overarching concepts and relevant research.

Perspectives on Overarching Concepts

The ED includes a section on economic considerations. This section discusses the economic rationale for the proposal, the potential costs and benefits of the proposal, and the alternatives considered.

The rationale for the ED is somewhat unusual in that it does not generally involve arguments for improving audit quality, which is part of the mission of the PCAOB. Rather, the ED argues there are potential benefits of *disclosure* in the auditor's report of the name of the engagement partner and others involved in the audit. For example, the ED argues that the name of the engagement partner:

- Would "provide a signal about the quality of the audit of the financial statements that could reduce the level of information asymmetry between company management and investors;"

- "Would allow investors and other users of financial statements to supplement the audit firm's name with more granular information when forming an opinion about the nature of the audit;" and

- Investors would "benefit from knowing the quality and reputation of not only the firm, but also of the engagement partner on the audit of the company in which they invest" (pp. 27-28).

Apparently the PCAOB envisions the proposed disclosure as a first step in the development by *third-parties* of databases that would, over a period of years, compile information about individual engagement partners and that such information would somehow be useful to investors (pp. 12-13). In addition, the PCAOB envisions that these databases would be readily accessible to and used by investors. From an academic perspective, we have several comments about these arguments.

Audits are conducted by engagement *teams* that include multiple partners and staff, whose work is supplemented by and subject to monitoring and oversight from a number of audit firm partners and staff not specifically assigned to the audit engagement. The ED seems not to consider the reasonableness of and implications from singling out one particular audit team member and expecting that team member to garner an individual reputation among investors that is meaningfully separate from that of the audit firm.[1]

Analogies to physicians and lawyers in the ED (p. 13) do not appear salient given the team setting for public company audits and considering the nature of the demand for and supply of audit services vis-à-vis services from physicians and lawyers. For example, a specific patient or legal client is the sole consumer of these services and has a personal and direct relationship with the service provider. In addition, physicians typically serve many patients and some schedule up to four patients an hour – while an audit partner may serve one issuer engagement a year.

Auditing essentially involves three-party relationships that include the issuer, the audit firm, and investors.[2] The issuer's audit committee represents the interest of investors in exercising its responsibilities for oversight and monitoring of the external audit and the issuers' relationship with the audit firm in accordance with the Sarbanes-Oxley Act of 2002. However, investors themselves are not a party to the audit contract and have very limited capabilities to express views on *audit firm* selection, irrespective of a particular audit partner on the engagement team.

These perspectives emphasize the importance of considering potential unintended consequences when assessing the costs and benefits of what the PCAOB is proposing in the ED. To illustrate, one might hypothesize that naming the engagement partner could actually result in reduced audit quality. This could occur, for example, if the "best" engagement partners resist taking on more challenging audits in order to avoid the risk of a low "audit quality rating score" in third-party

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[1] In addition, if not otherwise disclosed that the audit firm is dividing responsibility with another audit firm(s), the audit firm assumes responsibility for the work of others and must comply with PCAOB auditing standards and thus this aspect is subject to PCAOB inspection.

[2] We use the term "investors" to include other users of issuers' audited financial statements and audits of internal control over financial reporting, if applicable.

databases. We know of instances of such behavior in academic settings where a highly rated teacher avoids a difficult course or challenging teaching assignment and thus avoids the risk of lower ratings from students.

Importantly, the ED does not seem to reflect that the PCAOB – as both the regulator and inspector of public company audits – has access to vastly more information on audit quality at the engagement level and the factors that contribute to audit quality, including the role (and not merely the identity) of the engagement partner, than investors and other third-parties ever can have.[3] Audit committees also have access to substantial information about participants in the audit engagement and can monitor partner performance more reliably than can diverse investors. Given the nature and scope of the PCAOB's and the audit committee's information sets, it would seem that any "reduction in information asymmetry" related to audit quality for investors would be trivial or non-existent from simply disclosing the names of the engagement partners.

Moreover, information publicly available and used by outsiders to measure engagement partner performance could also be misleading. For example, research that correlates the name of the engagement partner with publicly available data about relative accounting accruals or even restatements by a particular issuer, may result in a "partner quality score" that conflicts with the engagement partner's performance based on the PCAOB's targeted inspection data that are not publicly available.

Thus, rather than focusing on disclosing various participants in the audit in order to promote "research by investors and others," we suggest that a key issue is how the PCAOB might capitalize on its unique data and access to audit firms and personnel to conduct and facilitate research within the confines of its legislative mandates.

Perspectives on Relevant Empirical Research

In addition to our overarching comments above, we would like to provide some perspectives on the discussion of relevant empirical research in the ED. We very much appreciate that the PCAOB is using research to inform its activities. The ED cites research that provides both confirming and disconfirming evidence regarding possible outcomes from adopting aspects of the proposal. However, it is also important that the PCAOB appreciate the limitations of the research cited regarding *this particular initiative* and we hope the following comments will be helpful.

Conducting research for predicting the effect of changes in public company auditing rules and standards is difficult. Rules and standards rely on complex judgments applied in a complex and uncertain environment of multiple behavioral, economic, regulatory, and cultural factors that interactively affect the appropriate professional behavior. Thus, the effect of rules or standards with a somewhat similar *combination* of conditions may not predict or validly generalize to the proposed combination.

[3] This point likewise applies to other audit firms that participated in the audit.

In addition, valid archival audit quality-related research by independent researchers can be hampered by limited data availability. As we previously noted, outsiders do not have access to the individual and engagement performance data available to audit firms, the PCAOB, and audit committees. As a result, most independent archival studies (and third-party developed databases) on audit quality must use data that can be no better than "second-best."

The archival studies discussed in the ED rely on evidence from other countries that have enacted requirements for partner signing of audit reports and/or disclosing the name of the engagement partner. Examples are from the U.K, Sweden, the Netherlands, and Taiwan. Each of these countries has a regulatory environment, legal structure, corporate governance, capital market, and many other factors including culture and traditions that differ from that of the U.S. Thus, the PCAOB should be cautious about generalizing findings in these studies to a U.S. setting.

We comment on two studies that illustrate the limited generalizability of findings and second best measures. Our comments *are not* about the validity of the research *per se*, but rather the relevance of these studies for predicting effects of U.S. adoption of the proposals in the ED.

One study, Carcello et al., suggests that initiating a regulatory requirement for partner signatures (characterized as similar to partner naming) improved audit quality in the U.K., on average, because it can be correlated with a statistically significant decline in U.K. companies' abnormal accounting accruals, among other measures, in the first year after introducing the requirement in the U.K. as a severe economic crisis was unfolding.[4] However, the measures used in the study do not indicate whether financial statements are materially misstated or auditors fail to comply with auditing standards. Further, as to the relevance of accruals as a general measure of financial reporting (earnings) quality, a noted accounting scholar, Professor Ray Ball of the University of Chicago, recently stated "surely one must be skeptical of published research containing statistics that imply things such as the majority of the variation in accruals is due to [earnings] manipulation in the form of 'discretionary' accruals" (p. 850).[5]

A second study, Knechel et al., uses partner name and other data from Sweden. This study relies almost entirely on going concern paragraphs resulting from *statutory* audits of very small *private* companies (e.g., those with as few as four employees) where, on average, a Big Four audit partner signed a statutory audit report every third working day throughout the year.[6] Again, we do not comment on validity of the study itself, but question the validity and relevance of its measures and results for evaluating the ED proposals for audits of U.S. *public* companies of any size.

Finally, in our view, discussion in the ED could benefit from considering other aspects of the long-standing research literature on the economics of auditing. This literature includes both

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[4] See "Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom," by Joseph V. Carcello and Chan Li in *The Accounting Review*, Volume 88, No. 5 (September 2013): 1511-1546 (ED, p. 29).
[5] See "Accounting Informs Investors and Earnings Management is Rife: Two Questionable Beliefs," by Ray Ball in *Accounting Horizons*, Volume 27, No. 4 (December 2013): 847-853.
[6] See the working paper on SSRN by W. Robert Knechel, Ann Vanstraelen, and Mikko Zerni, "Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions" (September 2013) (ED, p. 28).

conceptual and empirical work on quality-differentiated audit services and surrogates (proxies) for audit quality.[7] Contrary to suggestions in the ED (p. 27), audit firm name is not the only potentially observable surrogate for audit quality.[8]

Perspectives on Economic Considerations

The PCAOB is now formally engaging in economic analysis to consider whether its proposed rules and standards are appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation. To assist in the economic analysis process, the PCAOB is experimenting with the formation of a Center for Economic Analysis. We understand that the Center will advise the PCAOB on how economic theory, analysis, and tools can be better used to enhance the effectiveness of PCAOB program areas, including standard setting, inspections, and other oversight activities. In addition, the Center will promote and encourage economic research relating to the role of the audit in capital formation and investor protection. The Center also plans to host a conference on economic research relating to the role of the audit in the capital markets in 2014.

The 2014 budget of $258.4 million approved by the PCAOB provides $1.2 million in funding for this Center. The Center's funding includes resources to hire five new full-time employees (at least four of which will be economists) and four economic consultants. Further, the 2014 budget provides for hiring two more economists in the Office of the Chief Auditor. These new hires are in addition to the four economists in the Office of Research and Analysis and the two or three economists in the Office of the Chief Auditor already on-board at the end of 2013. As one Board member noted: "Economists seem to be popping up everywhere at the PCAOB."[9]

We recognize the need for the PCAOB to have staff and/or consultants with expertise in economic analysis. We are very supportive of inter-disciplinary research;[10] and, we applaud the PCAOB for attracting highly respected scholars. However, we have also come to understand the complexity of auditing and its effective regulation via standards, inspections, and enforcement.

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[7] The ED states: "The capacity to differentiate between alternative products is a fundamental requirement of competitive markets. Investors, for example, benefit from knowing the quality and reputation of not only the audit firm, but also of the engagement partner on the audit of the company in which they invest" (p. 28). While we apologize for any confusion, as we understand it, the focus of the 2012 Jumpstart Our Business Startups Act is on competitive effects for emerging growth companies and other issuers, not audit firms. Moreover, since the ED focuses on quality-differentiation among suppliers within the market for public company audits (rather than differentiation between product markets), the point as stated in the ED may not be relevant from an audit perspective either.

[8] We also note that the PCAOB's initiative on audit quality indicators (i.e., surrogates for audit quality) discusses a large number of potential indicators of audit quality. The PCAOB's outreach activities indicate stakeholders, including investors, generally give top ranking to "output" indicators that are currently publicly available. Notably, the engagement partner's name is *not* among the potential audit quality indicators on the PCAOB's long list and neither is a rating by PCAOB inspectors of engagement partners.

[9] See the comments of Lewis H. Ferguson at the November 25, 2013 PCAOB Open Board Meeting. It is also noteworthy that the Office of the Chief Auditor appears to have a staff of less than 30 people developing and drafting auditing, independence, quality control, and other attestation standards compared to the 17-18 people currently or budgeted to be involved with economic analysis at the PCAOB.

[10] For example, see "Science, Politics, and Accounting: A View from the Potomac," by Zoe-Vonna Palmrose in *The Accounting Review,* Volume 84, No. 2 (March 2009): 281-297.

As we have emphasized in our comments, public company auditing also has a number of unique institutional features, which are not necessarily analogous with other economic settings.

Because of these considerations, standard economic models and analyses require adaptation for the regulated public company audit context which, in turn, requires appreciation of both the uniqueness of the audit environment and the audit process itself. This context involves judgment and decision making by individuals and requires theories from psychology as well as other disciplines. Thus, considering the costs and benefits of proposed PCAOB audit rules and standards calls for research based on more than expertise in traditional economics alone.[11]

For these reasons, we take this opportunity to respectfully suggest that at least some of the *academic scholars* involved in the PCAOB's economic analysis and other research-related endeavors should have some audit expertise. We hope that the Center for Economic Analysis will consider this perspective in developing and implementing its initiatives.

The PCAOB's Strategic Plan for 2013-2017 (November 26, 2013) discloses that the PCAOB has developed internal guidance on economic analysis. We respectfully suggest that the PCAOB could encourage independent scholarly research by accountants, psychologists, and others relevant to its economic analysis if the Board would make this internal guidance transparent and publicly available.

Concluding Remarks

In analyzing the costs and benefits of PCAOB initiatives, including those in this ED, we encourage the PCAOB to consider the impact an initiative would have on the ability of regulated audit firms to attract and retain the quality of professional talent necessary to conduct effective and efficient audits.

Instituting a naming requirement that is expected to result in third-party databases that use *second-best* metrics with questionable construct validity for determining audit quality is likely to cause, among other consequences, the best partners to avoid more challenging audit engagements. This cannot be in the public interest.

As auditing educators, we are concerned about the potential chilling effects of such initiatives on attracting and retaining partners and staff for public company auditing. We hope that the PCAOB will also appreciate the implications of its initiatives for attracting the "best and brightest" students to prepare for careers auditing public companies.

In conclusion, we hope that the PCAOB finds our perspectives helpful. We would be pleased to discuss them further with the Board and staff.

[11] This statement holds even when including behavioral economics within economics.

Sincerely,

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March 13, 2014

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PCAOB Rulemaking Docket Matter No. 029
Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Dear Ms. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2013-009, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (the PCAOB Release or the Proposal).

The Board has requested public comment on amendments to its standards that are intended to improve transparency of public company audits. The PCAOB Release would require communication in the auditor's report of (1) the name of the engagement partner on the most recent period's audit and (2) the names, locations and extent of participation of other independent public accounting firms that took part in the audit and the locations and extent of participation of other persons not employed by the auditor who performed procedures on the audit.[1]

Overview

As noted in the PCAOB Release, the "Board believes that disclosure of the identity of the engagement partner, as well as enhanced transparency about other participants in the audit, would provide investors with information about the audits conducted for their benefit that they would find useful. The Board also recognizes that many investors … believe that these measures would prompt engagement partners to perform their duties with a heightened sense of accountability to the various users of the auditor's report."[2] As originally noted in our comment letter dated January 5, 2012 on PCAOB Rulemaking Docket Matter No. 029, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (the Prior Release), which we incorporate by reference here, we do not

[1] Per the Proposal, the name and location of other independent public accounting firms that took part in the audit and the location of other persons not employed by the auditor who performed procedures on the audit would not need to be communicated if their level of participation (individually for firms and in the aggregate for persons from the same country) was below five percent of the total hours as of the date of the auditor's report.

[2] Proposal at 5.

believe that the proposed disclosure of the name of the engagement partner would increase the engagement partner's sense of accountability, improve audit quality or result in independent public accounting firms enhancing their system of quality control (e.g., through changes to the assignment protocols for an engagement partner). Also, we question how useful such information would be to investors and other financial statement users,[3] particularly in light of the risk that it could mislead more than it informs (e.g., it could create an inappropriate implication that the engagement partner is responsible for such matters as the effective operation of firm-level quality controls) and the fact that the mere disclosure of a partner's name provides no insight into the full experience and expertise of the engagement partner. Accordingly, we again recommend that the engagement partner's name not be subject to required disclosure.

Although we support the Board's proposed communication of certain information about independent public accounting firms and other persons not employed by the auditor that took part in the audit, we continue to believe, as noted in our comment letter on the Prior Release, that such communication should be made outside of the auditor's report. Requiring that the information be included in the auditor's report will increase litigation risk and result in challenges to obtaining consents. If the Board determines to require disclosure of the engagement partner's name in the auditor's report, these concerns are multiplied. The remainder of this letter examines the litigation risk and consent issues, as well as some other issues, in greater detail.

Litigation Risks Raised by Naming the Engagement Partner and Other Participating Audit Firms in the Auditor's Report

In its Concept Release on this subject, the Board stated that its intent was <u>not</u> "to increase the liability of engagement partners,"[4] but the Board now assumes that its amendments will do just that.[5] Indeed, the possibility that engagement partners and other participating audit firms named in the auditor's report will be subject to liability under Section 11 of the Securities Act is a significant risk, because liability under

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[3] One of the studies cited in the Proposal gives an empirical basis for this concern. See Tamara A. Lambert, Benjamin L. Luippold and Chad M. Stefaniak, *Audit Partner Disclosure: Potential Implications for Investor Reaction and Auditor Independence.* In what appears to be the only study to examine the question, the results indicated that the more familiarity an investor had working with financial information, the less importance was attached to the name of the engagement partner.

[4] Release No. 2009-005, *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, at 11. See also, Proposal at 20 ("[T]he Board has not sought to increase the risk that an engagement partner would be held liable in private litigation . . . ").

[5] Proposal at 21-22. We are not convinced, however, that the assumption that engagement partners and participating audit firms that are named in the auditor's report will need to consent to the inclusion of their name in the auditor's report is correct. In the eighty years that Section 11 has been in place, neither engagement partners nor named participating audit firms have been thought to fall within its purview because auditors do not prepare financial statements and only the firm issuing the auditor's report issues a report or certification.

Section 11 is intentionally onerous and defenses are limited. Instead of addressing this specifically unintended result with particularity, the Proposal concludes that "any possible increases in a named engagement partner's or participating accounting firm's exposure to liability should be limited and that the potential risk of such an increase would be justified by the potential benefits . . .".[6] The conclusion appears to be drawn arbitrarily, especially when, as noted above, the increase in liability runs entirely afoul of the stated intention of the Board and, as noted below, there are methods of achieving the desired benefit without increasing the risk of liability and associated costs, which are in no way limited.

Communication of Information Through the Auditor's Report

There are logistical challenges that could arise from the need to obtain a consent from an engagement partner or a participating audit firm that is named in the auditor's report, which would be alleviated if the information is communicated outside of the auditor's report.

The majority of logistical challenges would arise in situations where the engagement partner from whom a consent is required is no longer associated with the firm that issued the auditor's report. In such situations, the former engagement partner may not agree to issue a consent or may be unable to perform whatever procedures that may be considered necessary to issue a consent (i.e., update procedures). This would have significant implications on the ability of the issuer to file a registration statement on a timely basis.

Additionally, because a consent might subject a named participating audit firm to costly litigation, regardless of outcome, it is reasonable to assume that a firm would want to review the document subject to the filing and possibly perform update procedures prior to issuing a consent. Because each named firm may face litigation, each may want to conduct update procedures, even where such procedures are duplicative of each other. Depending on the number of named firms that were involved in the audit, this could delay the registration statement filing process, while increasing its costs.

Costs of Proposed Approach

The costs of pursuing a regulatory scheme that increases an engagement partner's and named participating audit firm's exposure to private litigation are not "small,"[7] as the PCAOB Release concludes. Even if the engagement partner and firms are joined in a "lawsuit that would have been filed anyway,"[8] multiplying parties will multiply the number of issues to be resolved. The litigation will have to determine, for each participant, which part of the filing it might (and might not) have purported to certify. Because different participants would have had different tasks and performed their services in

[6] Proposal at 21.

[7] Proposal at 22.

[8] Proposal at 23.

different jurisdictions, the litigation will have to determine which law applies to which actions. Litigation also is likely to raise complex cross-border discovery disputes. Because the interests of the additional parties may not be identical to the interests of the signing independent public accounting firm, it seems likely that any Section 11 litigation will require multiple counsel representing the different interests, itself necessitating substantial added cost.[9] Additionally, the Proposal assumes that, if a judgment would be entered against an individual engagement partner, "the accounting firm will have greater resources to satisfy a judgment than will any individual partner," and that the firm will, in fact, satisfy the judgment instead of leaving it to the individual to do so.[10] This may be the case with larger firms, but the assumption would not be as sound in the case of smaller firms.

Finally, requiring the disclosure of the information in the auditor's report likely will increase costs associated with obtaining consents from the named parties, including costs associated with update procedures and delayed filings.

Alternatives to Providing Information in the Auditor's Report

As noted in our comment letter on the Prior Release, Form 2 provides an appropriate vehicle for providing the information that is the subject of the Proposal, without increasing the risk of litigation or imposing the logistical challenges detailed above. The purported disadvantages to Form 2 reporting cited in the PCAOB Release – the timeliness of the communication, the cost to compile and report the information, and a concern that it would make the information more difficult for investors and other financial statement users to find[11] – certainly can be addressed.

Although the PCAOB Release states that this information should be reported more quickly than the current deadline for Form 2 filings, the PCAOB could solve that issue by simply setting a different deadline for certain aspects of the Form 2 data (i.e., the name of the engagement partner and/or certain information about other participants in the audit), with such information being filed with the PCAOB on a periodic basis throughout the year. Alternatively, the PCAOB could introduce a new reporting form to gather the above information, and such form could be required to be submitted on a periodic basis throughout the year.

[9] The Proposal, at 22 n. 50, suggests that, in certain cases, indemnification may not be available to individuals. If indemnification were not available, the actual costs of defense for any individual defendant in a securities action will be significant to that individual, not to mention the additional adverse impacts associated with being named as a defendant in a lawsuit. The potential costs to individuals – tangible and intangible – do not appear to be contemplated fully by the Proposal.

[10] Proposal at 22.

[11] Proposal at 33-34.

With respect to the additional costs that will be incurred by firms, although firms will incur initial costs to develop processes to gather the information, those costs are unlikely to change significantly based on where the information is reported ultimately.

Finally, with respect to the convenience of locating the information, we do not believe it would be any more difficult for an interested investor or other financial statement user to find a particular company in Form 2 than it would be for that person to find a particular company's public filings on EDGAR. One of the studies cited in the PCAOB Release indicates that investors do read and consider the information on Form 2.[12] Regardless of where the name of the engagement partner is reported, it cannot become meaningful information unless combined with other information from other sources, as the PCAOB Release acknowledges.[13] There is no reason to believe that investors and other financial statement users with sufficient interest to research an engagement partner's history would find Form 2 daunting.[14] To the contrary, communicating the information by way of Form 2 may be more convenient, in that it would allow investors and other financial statement users the ability to identify other issuers with which the engagement partner is currently, or has been, involved.

Other Matters

Calculating Participation Percentages

We believe that the modification that the PCAOB made in the Proposal, to allow for the use of a range for purposes of communicating the level of participation of a participating audit firm and other persons not employed by the auditor that took part in the audit, will help alleviate some of the issues that would have been present if only a single number was required. Notwithstanding this change, we believe additional guidance is needed from the PCAOB as to how to separate the audit hours incurred by a participating audit firm when such firm performs work both in connection with the consolidated audit as well as for statutory audit reporting purposes.

In addition, we believe additional guidance from the PCAOB is required as to how to calculate the level of participation for those situations where a participating audit firm audits an equity method investee of the issuer (assuming that the independent public accounting firm that issued the auditor's report at the issuer level assumes responsibility for the work of the participating audit firm). As an example, should the hours for the participating audit firm that audits the equity method investee reflect the total hours incurred on that engagement, or should such hours be weighted by the ownership level held by the issuer in the equity method investee? Also, situations could arise where the independent public accounting firm

[12] Proposal at 30-31 and n.70.

[13] See, e.g., Proposal at 11.

[14] The Board makes finding information on Form 2 simple. A "hot-linked" section index to each Form 2 is provided, and the forms are word searchable.

that issues the auditor's report at the issuer level may not be able to obtain information about the hours attributable to the participating audit firm that audits the equity method investee, which would further complicate being able to perform the calculation that is required to determine the level of participation by such firm.

Scope

If adopted by the Board and approved by the SEC, the Proposal would apply to non-issuer brokers and dealers that will be required to be audited in accordance with PCAOB standards for fiscal years ending on or after June 1, 2014. We recommend that the Board exempt non-issuer brokers and dealers from the requirements of the Proposal. As noted in the PCAOB Release, the ownership of brokers and dealers is primarily closely held (per the PCAOB's Office of Research and Analysis, approximately 75% of the brokers and dealers have five or fewer direct owners), and the direct owners are generally part of the entity's management.[15] Therefore, the informational needs of these individuals would typically be different from those of an investor in a widely-held publicly traded company.

We believe that the Proposal should be applicable to emerging growth companies, and therefore recommend that no exemption from the amendments to the standards be provided for such companies, if the PCAOB decides to proceed with the Proposal.

Offshoring Arrangements

We are supportive of the approach that the Proposal takes with respect to the disclosure of offshoring arrangements whereby disclosure is not required when the work is performed by "offices of the accounting firm . . . in a country different than the country where the firm is headquartered."[16] However, we believe that "office" should be defined to include, and disclosure should not be required when, an entity performing the work is controlled by the accounting firm that issues the report, even if that entity is legally distinct from such firm. Whether the accounting firm issuing the report controls the work of the employees of the other entity is the important factor for investors to consider, not corporate formation formalities.

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We appreciate the Board's careful consideration of our comments, and support the Board's efforts to improve the transparency of public company audits through the communication of certain information about other participants in the audit. If you have any questions regarding our comments included in this letter, please do not hesitate to contact George Herrmann ((212) 909-5779 or gherrmann@kpmg.com) or Rob Chevalier ((212) 909-5067 or rchevalier@kpmg.com).

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[15] Proposal at 27.

[16] Proposal at A3-12.

Very truly yours,

KPMG LLP

cc:

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Jeanette M. Franzel, Member
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January 29, 2014

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Re: PCAOB Rulemaking Docket Matter No. 029

McGladrey LLP appreciates the opportunity to offer our comments on Public Company Accounting Oversight Board (PCAOB) Release No. 2013-009, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*. McGladrey LLP is a registered public accounting firm serving middle-market issuers, brokers and dealers.

We support increased transparency related to the audit where such transparency improves audit quality or better enables financial statement users to make well-informed decisions about their investments or their voting decisions. In issuing the reproposal, the PCAOB stated it believed that "providing information about the engagement partner and the other participants in the audit in the auditor's report would be useful to investors and other financial statement users."[1] We question and have significant concerns about how the disclosure of the identity of the engagement partner without appropriate context will help investors make better informed decisions.

Even if one believes additional transparency about the identity of the engagement partner is potentially beneficial, a balance must be achieved when weighing the potential benefits of transparency with the impact of the associated costs and consequences for audit firms, audit partners, issuers, and the capital markets at large. We believe there are significant potential unintended consequences, liability implications, and practical challenges associated with providing disclosure in the auditor's report of the name of the engagement partner and disclosure of other accounting firms and other persons not employed by the auditor. The PCAOB's release does not present clear evidence that any incremental benefit of such information in the audit report outweighs the potential costs and consequences. As further explained in our comments below, should the PCAOB determine that disclosure is warranted, we believe there are more appropriate disclosure mechanisms that would provide financial statement users better information with fewer associated costs and consequences.

Reproposed Amendments to PCAOB Auditing Standards for Disclosure of the Engagement Partner

Unintended consequences of providing information without appropriate context

Including the engagement partner's name in the auditor's report does not provide the appropriate context around or insight into the partner's work experiences or skill level. This lack of disclosure of relevant facts could cause investors to draw inappropriate conclusions about an engagement partner's qualifications to serve as the engagement partner for an issuer especially if the engagement partner is the partner of record for a limited number of issuer audits. For example, if an engagement partner's name is disclosed

[1] PCAOB Release No. 2013-009, page 2.

in only one issuer audit report for a financial institution, the financial statement user could erroneously infer that the engagement partner has very limited experience in auditing financial institutions. What may be unknown to the investor is that the engagement partner has robust experience in auditing financial institutions, such as when that engagement partner also (a) is the engagement quality reviewer for other audits of issuer and non-issuer financial institutions, (b) is the engagement partner for audits of non-issuer financial institutions and/or (c) has extensive experience in the firm's national office as a consultant for matters related to audits of financial institutions. This example illustrates an unintended consequence of the reproposed requirement that may have a larger impact on firms (other than the very large U.S. registered public accounting firms) whose partners may serve primarily non-issuers but are equally qualified to lead audits of issuers.

Information about an engagement partner's work experiences and skill level typically is given to the client's audit committee. Such information often includes the engagement partner's requisite experience in auditing entities in specialized industries, *etc*. After reviewing this information, an audit committee reaches a decision on its satisfaction with the experience and expertise of both the audit firm and the engagement partner. Nevertheless, the very limited nature of the reproposed required public disclosure about the engagement partner could result in an audit committee, for fear of potentially adverse marketplace reactions, being reluctant to engage a new audit firm or accept the assignment of a proposed engagement partner if the partner has a limited prior record of serving as the lead audit engagement partner for an issuer even though the engagement partner may have extensive experience serving non-issuer audit clients in the issuer's industry. This is another illustration of an unintended consequence of the reproposed requirement that may have a larger impact on firms whose partners serve primarily non-issuers but are equally qualified to lead audits of issuers.

We also believe requiring the disclosure of the engagement partner's name in the auditor's report could result in users reaching erroneous, inappropriate, or uninformed conclusions about the engagement partner or the quality of the audit because of the proximity of other factors in the auditor's report. Certain circumstances about a company disclosed in the auditor's report are not within the control of the engagement partner and do not directly relate to the performance of that engagement partner or the quality of the audit (*e.g.*, bankruptcy, going concern uncertainty, or material weaknesses in internal control over financial reporting). We question how an investor might interpret a situation where, for example, an engagement partner is named in an audit opinion with an explanatory paragraph for a going concern uncertainty. Would investors interpret that as a negative indicator about the engagement partner because of his or her association with an issuer in this financial situation, or would they interpret it as a positive indicator about the engagement partner because, in exercising his or her professional judgment, the partner determined disclosure of a going concern uncertainty was appropriate in the circumstances?

The Release states, "Some commenters have suggested that over time with the reproposed disclosure requirements in place, a body of information about the engagement partner's history will be developed that, when connected with other data, would be useful to investors and other financial statement users."[2] We are concerned that the creation and use of "engagement partner scorecards" by investors and other stakeholders without the appropriate context and/or based on factors outside the control of the engagement partner would be misguided in their attempts to evaluate the performance of engagement partners. We also are concerned that information gathered over time may be inaccurate and may likely be one-sided with a focus on negative matters. For example, consider a situation where the current-year engagement partner is named in a report that includes an explanatory paragraph for a restatement of financial statements with which he or she was *not* associated, such as when the partner is rotating onto

[2] PCAOB Release No. 2013-009, page 11.

the engagement or when the prior-year financial statements were audited by a predecessor firm. How will this information be reflected in the public domain?

Finally, we question what the impact may be on a partner's career if he or she is named in a report that includes an explanatory paragraph for a restatement. Could this potentially impact the partner's career serving public companies because an audit committee may not want its company to be served by an engagement partner who is associated with a restatement? If so, this seems like a "one strike and you're out" approach that will discourage auditors from agreeing to initially serve or continue to serve as the partner on public company audit engagements.

Liability considerations

We respectfully disagree with the PCAOB's assertion that the benefits provided to investors and others through the identification of engagement partners and other participants in the audit report justifies the increased liability against such individuals, most notably liability as to claims under Section 11 of the Securities Act of 1933. Section 7 of the Securities Act requires issuers to file with the SEC the consent of any accountant who is named as having prepared or certified any part of a registration statement or any valuation or report included in the registration statement filed with the SEC. The PCAOB "has assumed that engagement partners and participating accounting firms named in an auditor's report would have to consent . . . . to the inclusion of their names in such an auditor's report filed with, or included by reference in, another document filed under the Securities Act with the Commission."[3] A very real consequence of providing such consents is that engagement partners (and others named in the audit report) will likely be subject to Section 11 liability.

Section 11 imposes liability for material misstatements or omissions in a registration statement, subject to a "due diligence" defense, on "every accountant . . . who has with his consent been named as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement . . . which purports to have been prepared or certified by him."[4] While the PCAOB has stated in its Release that, in proposing additional disclosure, it has sought to mitigate any potential increase in liability as to the engagement partner,[5] we do not believe it has effectively done so with respect to Section 11 liability.

Because such claims do not require proof of causation, reliance or intent, Section 11's reach is broad and severe with the potential for considerable damages being awarded based upon the difference between the offering price and value of the securities at the time of the lawsuit. And, while historically there may not be many Section 11 claims against accounting firms, we believe these types of claims are likely to increase where a registration statement has been filed given Section 11's low burden of proof and the increased difficulty in bringing Section 10(b) claims against accountants after the Supreme Court's decision in *Janus*.[6] Additionally, an engagement partner's consent may provide plaintiffs with an argument to circumvent *Janus* in Section 10(b) claims. By virtue of the engagement partner's consent, combined with the disclosure of the partner's name in the audit report, the plaintiffs may argue that the

[3] PCAOB Release No. 2013-009, pages 21-22.

[4] 15 U.S.C. § 77k.

[5] PCAOB Release No. 2013-009, page 20.

[6] *See Janus Capital Group, Inc. v. First Derivative Traders*, 131 S.Ct. 2296, 2302 (2011) (clarifying that, for claims brought under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, the "maker" of a statement is the "person or entity with ultimate authority over the statement, including its content and whether and how to communicate it").

partner is effectively a "maker" of an alleged misrepresentation contained in the audit report under *Janus*.[7]

The Board also does not appear to have adequately considered the legal implications under state law. Blue sky laws vary widely by state, in statute and interpretation. Unlike federal securities laws, an auditor may be secondarily liable for aiding and abetting under the application of certain states' blue sky laws, and a number of states recognize causes of action by a holder of securities who claims to have relied on false statements. As with Section 11 claims, plaintiffs are more likely to rely on state law claims after *Janus*. The identification of the partner would increase the likelihood of the partner being named in a state law blue sky or common law claim.

As to all the potential claims against the engagement partner described above, we are concerned that the PCAOB understates the impact on litigation costs that will be incurred by the accounting firms as a result of the proposed disclosures. The addition of one or more individuals may significantly impact a firm's defense costs in that it may not only require the use of separate counsel, but will also impact the facts and legal theories at issue, the defense strategy and the litigation dynamics. In summary, we have significant concerns that naming the engagement partner in the auditor's report could increase the number of unwarranted claims brought against partners solely by providing that information to plaintiffs and plaintiffs' counsel. As a result, the Board's reproposal runs the unintended risk of increasing litigation costs and disrupting client services provided by engagement partners.

Finally, while not necessarily a liability consideration, we believe it bears mentioning that an increased risk of litigation may negatively affect an engagement partner's behavior, such as by reducing his or her willingness to participate in audits of public companies. This effect may be more pronounced at firms that derive a larger percentage of revenue from private company audits (*i.e*., some smaller firms) or smaller, regional offices of larger firms that have fewer partners available to serve on audits of public companies, which may impact their ability to compete for audits of public companies. Further, increased personal litigation against engagement partners will be a disincentive for firm professionals to remain in the public accounting profession.

Practical challenges in obtaining consents from the engagement partner

As stated above, the PCAOB "has assumed that engagement partners and participating accounting firms named in an auditor's report would have to consent as well to the inclusion of their names in such an auditor's report filed with, or included by reference in, another document filed under the Securities Act with the Commission."[8] Obtaining consents from predecessor partners would cause duplicative efforts for firms, resulting in additional costs – both in terms of fees and timeliness of the filing of the registration statement. The fees for such compliance efforts to obtain consents may not be insignificant, especially to smaller reporting companies.

For example, if the lead engagement partner has rotated off the engagement and a registration statement is filed after the original date of the audit report but prior to issuance of the next year's audit opinion, that partner would be required to provide a consent for the past engagement, even though he or she is no longer associated with the issuer, and would be subject to liability under Section 11 of the Securities Act. However, Section 11(b)(3)(B) states that the accountant will not be held liable if he can sustain a burden of proof that "he had, after reasonable investigation, reasonable ground to believe and did believe, at the time such part of the registration statement became effective, that the statements therein were true and that there was no omission to state a material act required to be stated therein or necessary to make the

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[7] *See id.*
[8] PCAOB Release No. 2013-009, pages 21-22.

statements therein not misleading." The exiting partner therefore will need to perform additional procedures, including reviewing the registration statement, before consenting to the inclusion of his or her name in the document. Current independence rules would appear to preclude the exiting partner from performing such additional procedures during the "time-out" period. Therefore, it appears the standard as reproposed would put an exiting partner in an unacceptable position where he or she either violates the standard of due care or the independence rules.

There also will be practical challenges in obtaining consents in certain circumstances, such as when a registration statement is being filed after the original date of the audit report and the lead engagement partner has left the audit firm prior to issuance of the next year's audit opinion. In such circumstances, at a minimum, there could be delays in obtaining a consent from a lead engagement partner who is no longer with the audit firm, and such delays would affect the timely filing of a registration statement. More importantly, we question the feasibility of requiring a former partner to sign a consent because there will be practical challenges with respect to providing indemnification, amending partnership agreements, *etc*. Additionally, in situations where consents are required from an engagement partner who is no longer associated with an audit firm, it is unclear whether such a partner would be allowed the ability to perform certain procedures, due to concerns about the sharing of confidential information. For example, this could happen when a former partner becomes a partner at a different audit firm or becomes the chief financial officer of a company that is a competitor of the issuer.

In addition, it could be possible that a retired partner would no longer have a license to practice and therefore would not be in a position to sign a consent. Further, the standard as reproposed appears to have no remedy for situations where a registration statement is being filed after the original date of the audit report and the lead engagement partner has been reclassified by the audit firm to a non-partner position; has been censured or restricted by the PCAOB or the SEC; has become medically incapacitated; or died prior to issuance of the next year's audit opinion.

Form 2

If, despite the significant issues discussed above, the PCAOB proceeds with the requirement to disclose the engagement partner's name, the PCAOB could add to Form 2 a requirement to disclose the name of the engagement partner for each audit required to be reported on the form, instead of in the auditor's report. Such disclosure would eliminate the liability concerns under Section 11 of the Securities Act and obviate any need for additional time and fees to obtain a consent from the engagement partner under Section 7. The disclosure of the engagement partner on Form 2 also would allow the information regarding an engagement partner to be easily accessible to financial statement users in one location. The housing of information by the PCAOB in one location on Form 2 also would help to ensure historical information is complete and can be compiled accurately by those who may desire to do so.

Because Form 2 currently is a static form that must be filed no later than June 30 of each year for the preceding 12-month period from April 1 to March 31, we recommend the PCAOB also consider alternatives that would provide financial statement users with the information in a more current timeframe. Such alternatives could include:

- Requiring specific Form 2 data to be filed on a periodic basis
- Creating a real-time web-based database that would be updated for changes in information within a stipulated number of days after the filing of the financial statements

Although audit firms will incur costs to develop processes to gather and maintain such information, we believe such costs will be significantly less than the overall costs of ongoing consent compliance efforts as currently proposed.

Reproposed Amendments to PCAOB Auditing Standards for Disclosure of Other Accounting Firms and Other Persons Not Employed by the Auditor

Providing financial statement users with useful information

In general, we believe the disclosure of the names of individual audit firms participating in the audit above the 5% threshold provides useful information to investors. However, we do not believe useful information is provided to investors by disclosing the number of other audit firms whose individual extent of participation in the audit engagement is less than 5% of the total audit hours. We believe the PCAOB should consider not requiring disclosure of the number of other audit firms whose individual extent of participation in the audit engagement is less than 5% of the total audit hours.

We also question the usefulness to an investor of the proposed required disclosure of the fact that a person not employed by the firm participated in the audit. In particular, the inclusion of specialists in this definition will lead to this disclosure in every audit engagement in which a firm engages a third-party valuation specialist or actuary, which is not all that uncommon - especially in certain industries. Also, because this disclosure is required of other persons *not* employed by the auditor, such disclosure may be a disadvantage for firms that consult a third-party actuary, valuation specialist, or other specialist while larger firms may employ professionals with these specialized skills. Therefore, we believe the PCAOB should reconsider inclusion of specialists in the disclosure requirements and should consider not requiring disclosure of the use of a person not employed by the firm if the extent of participation in the audit engagement by such a person is less than 5% of the total audit hours.

Practical challenges in obtaining consents from foreign firms

The reproposed requirement to disclose other accounting firms could slow the process of raising capital because audit firms who are individually named in the audit report will have to provide their consent pursuant to Section 7 of the Securities Act, as discussed above. Therefore, all audit firms identified within the audit report likely will need to review the registration statement and perform additional or updated procedures before providing a consent. Further, foreign firms may have challenges in reviewing a document that is not written in their native language. Conceivably, the logistical challenge of obtaining consents from foreign firms that are dated concurrent with the filing of the registration statement could be significant. Each of these factors could delay the process of filing a registration statement and will add additional cost.

Preferable alternative

We believe it would be preferable if the PCAOB would add a requirement to disclose other accounting firms for each audit required to be reported on Form 2, instead of in the auditor's report. This would make the information publicly available, but would obviate any need for additional time and fees to obtain consents from such firms under Section 7 of the Securities Act. The disclosure of other accounting firms on Form 2 also would allow the information to be easily accessible to financial statement users in one location.

Scope of Reproposed Amendments to PCAOB Auditing Standards

The PCAOB has stated it believes that "disclosure of the engagement partner and other participants in the audit would provide investors in U.S. companies with important information about the audits conducted for their benefit."[9] For a non-issuer broker-dealer, there are no investors. The ownership of brokers and dealers is primarily private, with individual owners generally being part of the management team. Disclosure of the engagement partner or other participants would be of no use to individual owners. Therefore, we believe the final standard should not be applicable to audits of non-issuer broker-dealers.

Likewise, we also do not believe the final standard should be applicable to audits of employee stock purchase, savings and similar plans that file annual reports on Form 11-K. Such a plan holds investments in its plan sponsor's own equity securities which generally are publicly traded, and the plan sponsor files annual audited financial statements with the SEC. We do not believe disclosure of the engagement partner or other participants in the audit would be meaningful information for participants in an employee benefit plan that is subject to PCAOB auditing standards.

We would be pleased to respond to any questions the Board or its staff may have about our comments. Please direct any questions to John Keyser, National Director of Assurance Services, at 614.456.2805 or Scott Pohlman, National Director of SEC Services, at 612.455.9499.

Sincerely,

McGladrey LLP

McGladrey LLP

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[9] PCAOB Release No. 2013-009, page 5.

National Asian American Coalition

December 6, 2013

Chairman James Doty
Board Member Lewis Ferguson
Board Member Jeanette Franzel
Board Member Jay Hanson
Board Member Steven Harris
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006
SENT VIA EMAIL

Support from Minority Community for PCAOB Proposal to Improve Transparency by Requiring Disclosure of the Engagement Partner

Dear Chairman Doty and Board Members Ferguson, Franzel, Hanson and Harris,

The National Asian American Coalition (NAAC) applauds the Public Company Accounting Oversight Board (PCAOB) for continuing its efforts to improve transparency and responsibility of major corporate audits.

The NAAC has filed comments in many PCAOB proposals over the last three years supporting transparency by auditors and in encouraging decision making by auditing firms that are independent of management.

We support the PCAOB's proposed auditing standards that would require greater transparency of audits of public companies, specifically as it relates to the engagement partner.

We are circulating the PCAOB report to other minority community groups that are affected by and will benefit from more transparency. Some will be filing subsequent comments in support of this proposal.

Specific Benefit to Consumers

Generally, most regulatory proposals for public comment secure abstract responses. In contrast, we offer the following specifics.

Both Edison, whose auditor is PricewaterhouseCoopers, and PG&E, whose auditor is Deloitte & Touche, are requesting billion dollar rate increases that depend largely on independent and accurate Big Four CPA audits.

National Asian American Coalition

We have already negotiated with PG&E, as part of their settlement with us in PG&E's General Rate Case (GRC), that PG&E will put out for competitive bid their auditor services. This, at a minimum, will require Deloitte & Touche to compete with other major CPA firms. As part of our regular meetings with the senior management of PG&E, we will discuss with PG&E requiring the winner of its competitive auditing bid to comply with this transparency provision.

Similarly, we are planning to raise, as part of Southern California Edison's GRC, the prospect of putting out a competitive bid for its own auditing functions and that Edison require disclosure of the name of the engagement partner.

Sometime in early 2014, we will be raising similar issues with the CEO of Sempra.

Thus, we will be raising the engagement partner issue with the three largest utilities in California, all of whom regularly request rate increases that in significant part depend on the accuracy of their audits.

Banking Industry

It is also our intention, over the next few months, since we meet on a regular basis with the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, the Chair of the Federal Reserve and senior Treasury officials, to discuss regulatory examinations for the almost 7,000 banks they regulate and ensure compliance with PCAOB transparency standards.

Upon information and belief, 98% of all banks with $10 billion or more in assets are audited by a Big Four firm, including all financial institutions with $100 billion or more, such as JPMorgan Chase, Wells Fargo, Citibank, Bank of American, US Bancorp, Capital One and Union Bank.

Similarly, in our meetings with SEC commissioners, we will be raising these issues of disclosure and transparency as they apply to all corporations that must file a 10-K report on an annual basis with the SEC.

Respectfully submitted,

Faith Bautista

Faith Bautista
President and CEO

1701 Pennsylvania Avenue, NW, Suite 300, Washington, DC 20006
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Feb. 10, 2014

Office of the Secretary
Public Company Accounting Oversight Board
1666 K St. NW
Washington DC 20006-2803

Re: Proposed Auditing Standards on Improving the Transparency of Audits: Proposed Amendments to PCAOB's Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit (PCAOB Rulemaking Docket Matter No. 29).

Dear Office of the Secretary:

On behalf of the board of directors of the National Association of Corporate Directors (NACD), we are pleased to submit our comments on the above-named Public Company Accounting Oversight Board (PCAOB or Board) Exposure Draft (ED) on Improving the Transparency of Audits. Founded in 1977, NACD is the only national membership organization created for and by directors. Given the close interaction between the auditor and the audit committee of a corporate board, and because many of our more than 14,000 members are audit committee members and chairs, NACD believes it is appropriate to provide our views on this issue.

The ED calls for two new disclosures in the standard auditor's report: (1) the name of the engagement partner, and (2) certain information about other parties that participated in the audit. For reasons discussed below, we do not support naming the engagement partner. We do believe, however, that including information about other parties that participated in the audit may be helpful to users of auditors' reports, but we believe the suggested disclosure must be supplemented with further explanations to ensure a clear and concise meaning.

Naming the Engagement Partner

Selection of the audit firm and the engagement partner are responsibilities placed on the audit committee by the Sarbanes-Oxley Act of 2002 and they are taken very seriously based on discussions with members of our Audit Committee Chair Advisory Council and with many other members of NACD. In all these discussions, however, we have never heard of a need to mandate naming the engagement partner. Thus, it was with great surprise that some of us read the ED to learn that "[s]ome audit committee members…shared the investors' views and expressed the view that naming the engagement partner in the auditor's report would be beneficial." (page 8)

That quote was in the context of the Board's review of the comment letters on the 2011 exposure draft that also suggested that the engagement partner be named. But of the 44 comment letters related to that release posted on the PCAOB website, only two appear to come from audit committee members, and neither of them is making that suggestion.

Letter 11 from Jack Henry says in part: "Your proposals for mandatory rotation and identification of the signing partner both strike me as solutions looking for a problem to solve. Neither proposal appears to be based on empirical evidence that the current state is broken and would be improved by either proposal." In recent remarks to a conference of the American Institute of Certified Public Accountants, Chairman James Doty implies that audit committees would benefit from the new engagement partner information:

> Nor can the responsibility to select only the best engagement partner be placed at the feet of audit committees, unless we provide audit committees better information against which to benchmark. Diligent audit committees try to obtain information about, and pay careful attention to, a proposed engagement partner's history. But today most of that information must come from the very firm putting the partner forward. The lack of generally available information about engagement partners limits audit committees' ability to meaningfully assess and compare the partner's qualifications and experience.

Chairman Doty does not explain how this assessment would occur, but he and the Board apparently believe that audit committees (or service providers they engage) would gather engagement partner names and combine that with information about negative factors such as restatements, going-concern opinions, and enforcement actions, as well as other personal information such as industry experience, education, publications, and awards. Nevertheless, it would take years, if not decades, for any sort of robust database to develop with such information. And it would likely be chronically incomplete and out of date—in short, the type of "information" that most serious audit committees would hardly want to rely on.

But of more importance is the fact that the decision process for naming an engagement partner cannot be easily captured in the type of database that the PCAOB seems to have in mind. The typical selection process is much more nuanced and involves assessing and weighing numerous professional and personal characteristics of individuals in order to decide on what the audit committee believes is the best fit in the particular circumstances. As directors, NACD members work with both independent auditors and other sources to gather sufficient, confidential data in order to make well-informed decisions about the engagement partner.

Simply naming this individual without investors having the full knowledge of all that went into the selection process could be counterproductive. *Audit firms work as partnerships*; a good engagement partner is inseparable from his or her firm. Knowing the firm and its work is far more important than knowing the name of an individual engagement partner.

We also note that in its initial ED, the Board's stated objective for this issue was to improve audit quality, and this remains a stated objective in the new ED. For example, according to Board member Jeanette Franzel: "The release also suggests that such disclosure may create an incentive for auditors to voluntarily take steps that could result in improved audit quality."

Frankly, we find such a statement to be somewhat disrespectful to the auditing profession. Public company auditors are held to the highest standards in their firms, by the PCAOB through its inspection process, by the Securities and Exchange Commission through regular reviews of filings, and by the legal system that holds them accountable through the civil bar. And as audit committee representatives, we expect their finest work, day in and day out. In all honesty, we cannot imagine there is a "higher standard" to which they would somehow rise if only the engagement partner were named in the auditor's report.

In summary, audit committees certainly don't want nor need the engagement partner to be named in the auditor's report. And we seriously question whether doing so will provide worthwhile information to investors.

Disclosure About Other Participants

We generally support the proposed disclosure about other accounting firms and other parties participating in the audit. Including this information in the auditor's report will help investors understand that the primary audit firm may have performed only a portion of the audit and others may have participated as well. Some investors will be particularly interested to know if a material part of the overall engagement has been performed by a firm that is not subject to PCAOB inspection.

We believe, however, that this disclosure may confuse some users unless it is supplemented with a description of how the signing firm has overseen the work of the other firms involved in the audit. Without such disclosures, this requirement could lead to inconsistent reporting. Some companies may make the simple disclosure without the explanation, while others might feel obligated to provide a detailed explanation in their financial statement footnotes or audit committee report. To avoid such inconsistencies, we would suggest mandating an additional description of oversight by the signing firm, including the supervision and review of the other firms' work.

NACD appreciates the opportunity to comment on this ED, and would be pleased to respond to any questions regarding the views expressed in this letter.

Sincerely,

Ken Daly
President and CEO, NACD

Reatha Clark King

Reatha Clark King
Chair, NACD

NASBA

National Association of State Boards of Accountancy

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January 24, 2014

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street N.W.
Washington, DC 20006-2803

Via e-mail to comments@pcaobus.org

Re: "Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit;" PCAOB Rulemaking Docket No. 029.

Dear Members of the Public Company Accounting Oversight Board:

We appreciate the opportunity to provide comments on "Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit" (the Reproposal) issued by the Public Company Accounting Oversight Board (PCAOB or the Board). The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness of the licensing authorities for public accounting firms and certified public accountants in the United States and its territories. Our comments on the Reproposal are made in consideration of our charge as state regulators to promote the public interest. In furtherance of that objective, we offer the following recommendations.

We support the Board's mission to further the public interest in the preparation of "informative, accurate and independent audit reports" and to provide information about the engagement partner and other participants to the audit. We have provided specific responses to the questions in your Reproposal that would protect the public interest and/or assist us in our roles as state regulators of certified public accountants. Please see the attached appendix for our responses.

One issue that came up in our discussion of the Reproposal was the potential misunderstanding of the role of the engagement partner (by inappropriately analogizing to the responsibility for the financial reports on the part of the principal executive officer and the principal financial officer (as stated in Section 302 of the Sarbanes-Oxley Act) if an explanatory sentence on the auditor's role is not added to what is being proposed for the auditor's report. Care should be taken that, in bringing additional information to the public, an expectations gap is not created. Consequently, we are recommending that a sentence be added describing the role of the engagement partner relative to the role of the audit firm.

The Reproposal contains requirements upon which we cannot comment upon with certainty. These include the percentage threshold at which participants must be identified or whether participation should be measured in terms of hours or monetary value.

We appreciate the opportunity to respond to the Reproposal referenced above.

Sincerely,

Carlos E Johnson

Carlos E Johnson, CPA
NASBA Chair

Ken L. Bishop

Ken L. Bishop
NASBA President and CEO

Attachment

Appendix

"Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit," PCAOB Rulemaking Docket No. 029

	QUESTION	ANSWER
1.	Would the re-proposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?	• In general, state regulators have not had an issue with identifying an engagement partner or other participant responsible for a failed audit during our investigation process. However, we recognize that the public does not have the same ready access to information and we do believe that protecting the public interest could be enhanced by: - Disclosing the identity of the engagement partner. Such information could then be used to identify a particular individual associated with a failed audit. - Providing information with respect to other participants that could be useful when investigating a failed audit. • In addition, we suggest that the auditor responsibility section of the audit report be enhanced with a sentence describing the role of the engagement partner relative to the role of the audit firm. Without such clarification, a potential reader of the report may believe the named

		partner to have the same liability as someone signing the Item 302 certifications as CEO or CFO.
2	Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?	
3.	Over time, would the re-proposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation? a. Would such databases or compilations be useful to investors and other financial statement users? If so, how? b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?	• Databases could be developed to correlate a specific partner with restatements or other audit failures. This could be useful in considering potential disciplinary action against a firm and/or a partner. Regulators in states that have adopted the Uniform Accountancy Act's Model Rules already have processes in place that allow them to be notified of quality matters that may be of the public interest, including the following: • UAA Model Rule 11-2(a)(1) requires CPAs and CPA Firm to "notify the [State] Board . . . within 30 days of Receipt of a peer review report pursuant to Rule 7-3(h)(3), or a PCAOB firm inspection report containing criticisms of or identifying potential defects in the quality control systems>" • Model Rule 11-2 contains several other self-reporting requirements, including disciplinary actions by any other federal or state agency, foreign authority or credentialing body, PCAOB,

		etc., and even "Notice of disciplinary charges filed by the SEC, PCAOB, IRS, or another state board of accountancy, or a federal or state taxing, insurance or securities regulatory authority, or foreign authority or credentialing body that regulates the practice of accountancy." • We believe that the PCAOB should consider utilizing its resources to compile such databases of information as noted in its proposal.
4.	Over time, would the re-proposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?	It may be important for state regulators to understand all parties involved with a failed audit in their state. If the other participant was involved with a material portion of the failed audit, an investigation could be performed to determine if a state licensee/permit holder was involved with such failure. Additionally, this data is important for State Boards to be able to track those firms doing business in their state that are not licensed to do so.
5.	Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?	
6.	Would the re-proposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?	

7.	Would the re-proposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?	
8.	Would the re-proposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?	.
9.	What costs could be imposed on firms, issuers, or others by the re-proposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?	
10.	What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?	
11.	Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?	
12.	Would the re-proposed amendments increase the engagement partner's or the other participant's sense of accountability? If so, how? Would an increased sense of	No. Under the accountancy law of each state, the individual licensed professional is charged with

	accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.	maintaining quality, accountability and protecting the public interest. The engagement partner is held responsible for his/her actions, regardless of whether they sign their own name or the firm's name.
13.	What costs could be imposed on firms, issuers, or others by the re-proposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?	Other countries' laws may prohibit compliance. In Australia, a law prohibits the other auditor from being named when they participate in a group audit. If an Australian firm was a significant auditor (under criteria to be identified in item 17 below) the group auditor would be forced into violation of Australian law in order to meet the re-proposed PCAOB standard.
14.	What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?	The costs to obtain consents from other auditors participating in a group audit could be very large to a registrant. There might be significant delays in filings due to the lack of response of such firms. Also (see response to item 13) there may be legal restrictions that would prohibit a firm from providing such consent where they are not the group auditor.
15.	Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?	
16.	Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial	Specifying a range of the other participant's participation versus a specific number would allow more timely information. The final allocation

	statement users? Why or why not? Would the re-proposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?	of audit hours in a group audit will likely change from the initial planning thru the end of the audit. The accumulation of actual hours will require more time to complete and not result in more meaningful information to the public than disclosure of ranges of other participant hours. We also suggest that the PCAOB reconsider the concept of hours versus the percentage of assets and/or net income that is audited by other participants. As significance to the audit may not directly correlate to hours worked, it may make more sense to base such disclosures on assets/liabilities or revenue audited. In addition, this information may be more readily available at the time of report issuance
17.	Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?	In terms of protecting the public interest, we believe that a percentage between 5 and 10% would be more relevant, especially if the final standard is revised to require disclosure related to the significance of other participants to the financial statement amounts, not hours. Disclosure of percentages below that threshold does not seem to be relevant.
18.	Under the re-proposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the	We do believe that it is important for the public to be aware of the significant participants in performing the overall audit. Large firms practice under a variety of legal structures, including situations where the audit, tax and human

	accounting firm issuing the auditor's report. a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not? b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this is made clearer?	resource consulting functions are legally separate from the firm operating under the same "brand name" in the same country, in addition to having foreign affiliates that are legally separate from other firms using the same global "brand name." It is not clear if the PCAOB intends for firms that have separate legal structures for tax, human capital or other specialists in offices of the same country of the firm performing the audit work be disclosed. Requiring firms to provide that type of disclosure could have unintended consequences and be very confusing to the public. The requirement not to disclose offshoring arrangements where the office is outside of the country appears to be sufficiently clear.
19.	Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the re-proposed requirement to disclose other participants in the audit?	Some firms practice under "affiliations" or "networks" in the same country of the firm that is issuing the auditor's report. It is important for the public to know those significant participants that are not a part of the same legal structure as the firm signing the auditor's report. .
20.	Under the re-proposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name,	It is not clear if the term "engaged specialist" is to only include those persons with specialized skills. That could include a valuation specialist, actuary, tax or other professional who is a partner or employee of an accounting firm, or it could pertain to only those specialists who are engaged from a separate firm.

	but would be disclosed as "other persons not employed by the auditor." a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why? b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?	If the PCAOB is to retain this concept in its final standard, it would become even more important to define the role of the engagement partner and other participant in the auditor's report. See our response to item 1 above.
21.	In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?	
22.	If the Board adopts the re-proposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?	
23.	Are the re-proposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?	In order to protect the public interest, broker dealer audits should not be exempt from the final standard. Many broker dealers' auditors, as well as other issuers, may rely on SAS 16 reports for various controls related to their clients' financial systems. It is not clear if the PCAOB intends the issuers of those reports to be included as an "other participant "or not. We would advise that the PCAOB not include the issuer of a SAS 16 report in its definition of an "other

		participant", and that specific guidance indicate that the issuer of this type of report would be excluded from this disclosure.
24.	Should the re-proposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the re-proposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?	In order to protect the public interest, EGC audits should not be exempt from the final standard.
25.	Are the disclosures that would be required under the re-proposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the re-proposed amendments that are specific to the EGC context?	

February 4, 2014

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Via email: comments@pcaobus.org

Re: Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

PCAOB Release No. 2013-009, Docket Matter No. 029
December 4, 2013

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 29,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned proposed auditing standard.

The NYSSCPA's Auditing Standards and SEC Committees deliberated the proposed standard and prepared the attached comments. If you would like additional discussion with us, please contact Julian Jacoby, Chair of the Auditing Standards Committee at (646) 644-4482, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

N Y S S C P A

J. Michael Kirkland
President

Attachment

NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

IMPROVING THE TRANSPARENCY OF AUDITS: PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS TO PROVIDE DISCLOSURE IN THE AUDITOR'S REPORT OF CERTAIN PARTICIPANTS IN THE AUDIT

(PCAOB Release No. 2013-009, Docket Matter No. 029)
December 4, 2013

February 4, 2014

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New York State Society of Certified Public Accountants

Comments on

Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

(PCAOB Release No. 2013-009, Docket Matter No. 029)

General Comments

The New York State Society of Certified Public Accountants (NYSSCPA) is pleased to submit the following comments on the above-captioned release (the "current Release") issued by the Public Company Accounting Oversight Board (PCAOB or the Board). We understand that the PCAOB's objective in issuing the current Release is to improve auditing standards and the quality of audits by providing investors and other financial statement users with transparency in the form of additional information about key participants in the audit.

The Board acknowledges in the current Release that "accounting firms generally opposed the disclosure of the name of the engagement partner in the auditor's report,"[1] and this organization also opposes it. However, our opposition (and our perception of the views of the accounting firms, in general) is not based on some self-protective objective intended, for example, to avoid the regulatory imposition of any unwanted risks (*e.g.*, adverse publicity or other consequence from an inspection report) or financial costs (such as from litigation); rather, it is based primarily on what we see as an exaggerated view of value of the disclosures and their potential to mislead (see our response to Question 8).

Should the proposed disclosures regarding "other participants" in the audit, in fact, constitute useful information, we believe the auditor's report is not the place for it. That information would best be contained in other places such as in the PCAOB's periodic reporting forms. If the Board's primary objective is (as it should be) to increase investors' confidence in the work of other participating audit firms, such objective would be better served by promulgating a strengthened "group" auditing standard that incorporates significant provisions of ISA and AU-C 600 (both titled, *Audits of Group Financial Statements)* to replace the current, outdated AU 543, *Part of Audit Performed by Other Independent Auditors*. This is discussed further in our response to Question 4, below.

Details of our view**s** are provided in our response dated January 4, 2012, to the Board's initial proposal relative to its Rulemaking Docket Matter No. 029 (PCAOB Release No. 2011-007, the "2011 Release") and in our answers to the questions that follow.

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[1] Page 8, fn 25.

Responses to Specific Questions Presented in the Current Release

We have reprinted the questions in bold italics below with our response following each question.

1. *Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?*

No. Transparency (which the current Release, like its predecessor, the 2011 Release, is attempting to address), entails providing information that will enlighten or be useful in making investment decisions. However, as we stated above and in our letter of response to the 2011 Release, we do not agree with the basic premise that disclosure of the name of the engagement partner on the audit would constitute useful or meaningful information of any significance to investors or other financial statement users, and we find the arguments put forth by investor groups and other proponents of the reproposal as summarized by the Board in the current Release unconvincing. Accordingly, we are not persuaded by the current Release to alter our view.

We question the usefulness of providing the engagement partner’s name in audit report because we believe it is highly unlikely that investors and other users of financial statements could be sufficiently familiar with the capabilities, integrity and ethical values of a significant portion of the hundreds or perhaps thousands of engagement partners responsible for the audit of public companies or the quality control environments in which they function in order to make any meaningful investment judgments concerning the audit (despite any limited information summarized in any database that might be available in the future).

Even if a few financial statement users were able to recognize the name of a particular engagement partner, it is unclear how disclosure of the name alone provides any useful information about the ability of the individual engagement partner to supervise and coordinate a particular audit engagement. We do not believe that investors knowing the name of the engagement partner can evaluate an audit in which perhaps hundreds of professionals participated around the globe and in which the engagement partner’s input is but a small fraction of the total engagement hours.

Absent any adverse publicity that might have befallen a very small number of audit partners (some of whom were not engagement partners), disclosure of the engagement partner’s name would not provide investors with any information about the education, experience or ability of the engagement partner to deal with specialized industry issues, complex accounting questions or unique control environment considerations of any particular audit client.

2. *Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?*

No. We believe 1.) It is highly unlikely that the very limited transparency, *i.e.*, the engagement partner's name, would be sufficiently useful to shareholders in deciding whether to ratify an issuer's appointment of an audit firm, and 2.) The engagement partner's name is irrelevant to shareholders when ratifying the appointment of the audit firm.

The current Proposal states "This information [the engagement partner's name] ***could be valuable*** to investors … if they are asked to vote to ratify the company's choice of registered firm as its auditor [***emphasis added***]."[2]

We note that the reproposal does not demonstrate that the current system of non-disclosure is inadequate in that it does not provide any empirical evidence that the engagement partner's name is as important to voting shareholders as the audit firm's name is.

Our views on the proposed disclosures for "other participants" are the same as the comments above.

3. *Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?*

No. The current Release states that investors "generally have not had access to information about the engagement partner responsible for the audit for the firm or whether, and to what extent, other firms played a role in the audit. This information ***could be valuable*** to investors in making investment decisions as well as if they are asked to vote to ratify the company's choice of registered firm as its auditor [***emphasis added***]."[3] However, the proposal to disclose merely the name of the engagement partner would still constitute "little or no information." The Board speculates that a database will be built sometime in the future and if built "the investors will come." The obvious questions are who will build a database, who will administer it, how extensive will it be, who will pay for it, *etc*.? The disclosure of the engagement partner's name would neither effectively nor currently address the Board's perceived deficiency. The Board's choice of the term "could be valuable" serves only to emphasize its inability to support the assertion that it "would be valuable."

The current Release also states that "disclosure of the engagement partner and other participants in the audit would provide investors in U.S. companies with important information about the audits conducted for their benefit."[4] The Board has not offered any persuasive support for its belief that such information would be "important."

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[2] Page 3.

[3] Page 3.

[4] Page 5.

Despite the suggestion in the current Release that such information might be available in a database, we see no basis for believing that the extent of information as would be necessary to track an engagement partner's history, professional qualifications, industry expertise and association with restated financial statements or going concern opinions to any meaningful extent is likely ever to be available in the U.S. as a result of the reproposal for more than a miniscule fraction of those auditors serving as engagement partners for audits of issuers' financial statements.

Except in rare instances in which the partner has been named in some adverse publicity concerning a high profile audit failure, these engagement partners, and their backgrounds, experience and other qualifications are virtually unknown outside their own firms and, perhaps, certain other professional colleagues with whom they are directly acquainted. Regarding industry expertise, the operative quality control standard requires (among many other things) the engagement partner "possess an understanding of the industry in which a client operates."[5] We believe that investors are not equipped to, and should not, second guess the applicable quality control standards. We also believe that an engagement partner's association with entities that have restated their financial statements, or an audit report that has an explanatory paragraph regarding going concern issues, is not predictive and useless in making future investment decisions because the association does not directly result in immediate or future change in stock prices nor is it necessarily directly associated with any audit deficiency.

It should be noted that data on restatements as a percentage of audits would likely to be very misleading given the disparate reasons and circumstances of restatements. With regard to data on going concern reporting, we believe that if data were available, there is a potential for having a misleading effect in that the effect of a "going concern" emphasis paragraph may be rendered moot if a particular engagement partner were to develop a track record of frequently having such reporting when the audited entity did in fact continue to operate as a going concern. In such a case, there could be a "boy who cried wolf" effect to downplay the significance of the "going concern" paragraph.

In its current Release, the Board also states that "it has obtained information related to engagement partner quality history through a firm's internal and external inspection processes, as well as a firm's internal processes to monitor its quality controls."[6] In view of the Board's apparent focus on a relatively small selection of high risk engagements to inspect and its highly limited focus on quality control assessment, we believe that the extent and the value of any engagement partner history obtained in its inspection process that is implied by the foregoing statement would be considerably overstated.

If transparency is the Board's objective, we suggest that audit deficiencies found by the inspection teams be made available in a more timely manner to investors. In addition, such information would be more valuable if it included names of the firm and the names of key professionals who worked on the deficient audit. We believe that investors and other users of financial statements should rely primarily for auditor evaluations on the effective performance of

[5] PCAOB Interim Quality Control Standard QC Section 40.

[6] Page 7.

the financial oversight role by audit committees (which we believe should be subject to greater regulatory control than is currently the case, for example, by the SEC or possibly a stock exchange).

We question whether the limited information about other participating firms proposed to be included in an audit report would likely be "valuable" information (see our response to Question 8).

a. ***Would such databases or compilations be useful to investors and other financial statement users? If so, how?***

No, we do not believe such a database as outlined in the current Release would be sufficiently comprehensive to be useful. Reasons for this view are set forth in our responses to Questions 1 and 3.

b. ***Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?***

No. See our response above. Audit committees have immediate and direct access to the audit firm, the engagement partner, and other partners and managers of the firm; accordingly, they have no need for the database envisioned by the current Release.

4. ***Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?***

As we stated in the third paragraph of this letter, we believe the audit report is not the appropriate place to deal with any proposed disclosure of other participants in the audit. That information would be contained in other places best such as in the PCAOB's periodic reporting forms. If the Board's primary objective is (as it should be) to increase investors' confidence in the work of other participating audit firms, such objective would be better served by promulgating a strengthened "group" auditing standard that incorporates significant provisions of ISA and AU-C 600 (both titled, *Audits of Group Financial Statements)* to replace the current, outdated AU 543. Such a strengthened new standard would require the signing audit firm to perform all procedures necessary to enable it to take responsibility for the work of component auditors and or others participating in the audit, and would set more robust requirements than the current standard for overseeing the work including its scope determination and other planning, performance, supervision and review and evaluating the background, experience and other qualifications of assigned personnel. We believe the new, more robust standard should strengthen required communications with audit committees regarding the participation of others and the oversight applied by the primary auditor.

5. ***Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?***

No, the name of the engagement partner is not important to whether or not the audit was conducted in accordance with the standards of the PCAOB (U.S.), nor is the name of the engagement partner relevant to the firms opinion that "the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles."

Notwithstanding our comments in our response to Question 4, there will always be some circumstances that could be perceived as "important." These can occur when audits fail and facts become revealed in hindsight. When there are high inherent risks such as companies operating in high risk /high reward industries (*e.g.*, pharmaceuticals, high tech, insurance or other regulated industries), there is always uncertainty surrounding the level of assurance attained for audits of certain financial statement assertions (such as valuation of liabilities or asset valuations based on future cash flows). There would be value in understanding that the auditors have specialized knowledge and experience. Perhaps all of the large international firms have client bases in most industries, and, as a result, this point may be moot. Many firms have specialties covered by professionals in their consulting practices. Under the reproposal, those specialists would not be required to be mentioned. Firms not having employees who are specialists would be at a competitive disadvantage (perhaps) having to list specialists used in the audit (though both auditor and specialist did acceptable work).

6. ***Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?***

No, to both parts of the question for the same reasons as those set forth in our responses to Questions 1 and 3. Moreover, there was little or no evidence presented in the research studies cited by the Board in the current Release of any likely significant effect of such disclosure on capital allocation.

7. ***Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?***

We have observed that it has been a common practice of the investment banking community to require engagement of a "Big Four" or other nationally known audit firm in connection with public securities offerings. Under the reproposed rule, investment bankers and other underwriters might be likely to develop a subset of "approved engagement partners" or other partners with known specialized industry knowledge despite the fact that industry expertise might be provided on any specific audit engagement by an engagement partner whose knowledge and other qualifications are unknown to the underwriter—someone other than the engagement partner, or in some cases, by a qualified auditor below the level of partner. We believe this is an unintended consequence of the current Release that would have the effect of hindering competition among audit firms.

8. *Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?*
We believe that, by implication, inclusion of the engagement partner's name in the audit report inherently overstates the responsibilities of the engagement partner while it understates the responsibilities of the audit firm for the conduct of the audit, and is misleading. It is the firm that the issuer's audit committee evaluates and engages to conduct the audit, and it is the firm that develops the audit methodology, processes and procedures. Moreover, the firm:

- Trains its personnel to assure that a approach is followed that is consistent with the firm's quality control policies and procedures and all applicable professional standards, laws and regulations,
- Decides who will serve as the engagement partner,
- Assigns the engagement team that may consist of other partners, managers and staff,
- Establishes client acceptance and retention, and engagement review policies and procedures,
- Establishes consultation requirements and procedures for resolution of differences of opinions, and
- Assumes virtually all the risks associated with the engagement.

As we noted in our response to the 2011 Release, although the background, training and experience of the engagement partner is important, it is the firm that bears primary responsibility for the audit and the resultant report that is issued. Collectively, the efforts of the entire engagement team (including, but not limited to, other partners and professional staff, engagement quality reviewers and various firm specialists), not just the engagement partner, represent a cohesive unit that conducts the audit with the support of the firm, as a whole, in accordance with the firm's established audit methodology and the quality control environment particularly its "tone-at-the-top."

Large audit engagements often use multiple partners and large engagement teams to deal with specific business units, diverse locations, provide expertise in specific accounting and other subject areas or specialized industry issues. While the role of the primary engagement partner is a key element, other members of the team also have significant roles in the engagement. For example, the partner overseeing the auditing procedures performed at an issuer's material subsidiary may have expended more hours on audit than the engagement partner and may have had a similarly significant impact on the performance and planning of the overall engagement to that of the engagement partner. Also, the role of the engagement quality reviewer may have considerable significance with regard to the achievement of the audit objectives. We believe disclosing the name of the primary engagement partner alone leaves investors and other financial statement users with the misleading impression that this role is the only one that critically matters.

Further, as we also stated in our letter of response to the 2011 Release, we believe that if the reproposal were to be adopted, there will likely be an unsupported inference by financial statement users that audits conducted by audit firms that perform less than 100% of the auditing are of a lesser "quality" than audits in which the firm performs 100% of the auditing. This is despite the fact that the operative auditing standard requires the reporting firm to supervise, evaluate and take full responsibility for the work of other participating firms whenever not making reference thereto in the audit report[7]. The proposed audit report disclosures would not afford users any information that would help them to assess the effectiveness of a participating firm's quality control policies and the procedures employed to ensure compliance with other auditing standards.

We believe that if the reproposal were to be adopted, without any other available information, typical financial statement users would be likely to reach an inappropriate conclusion that audit quality necessarily diminishes as the number of participating audit firms increases. If this has been determined to be the case (for example, as a result of PCAOB inspection activity), we believe the solution should be not to disclose their identity but to strengthen both the auditing standards that guide the supervision and review of the work of other auditors and the effectiveness of the reporting audit firm's related quality controls that are required to be in place.

9. ***What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?***

We do not see any significant incremental costs that would be likely to result from the requirement to disclose the name of the engagement partner in the auditor's report. Moreover, we do not see that costs, if any, would be likely to be different when the issuer is an EGC as compared to other issuers.

10. ***What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?***

There could be significant additional costs if firms or individuals mentioned in the filing do not agree to sign consents. This is not unusual, and we have seen delays and reaudits for this reason.

11. ***Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?***

As set forth in detail in our response to Question 12, we see no additional benefits or probable improved compliance with the existing auditing requirements in naming engagement partners in

[7] Currently PCAOB Interim Auditing Standard AU Section 543.

audit reports. In addition, we do not see any likely differences in this regard when the issuer is an EGC as compared to other issuers.

12. ***Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.***

The current Release asserts (as does the 2011 Release) that a sense of personal accountability may be increased resulting in exercising greater care. However, as we asserted in our letter of response to the 2011 Release, we do not agree with the premise that the sense of accountability for engagement partners (or for other participants in the audit) or that "audit quality" would improve through disclosure of the name of the engagement partner or other participants in the audit, and we view nothing in the Board's current Release that is sufficiently convincing to persuade us to alter that view.

We are aware that many financial statement users have asserted (unconvincingly) that requiring disclosure of engagement partner's names in an audit report would contribute in some significant way to "audit quality" by increasing the engagement partner's sense of accountability, professionalism and responsibility. However, in addition to the reasons we have stated elsewhere in this letter, we disagree with those user views for two additional reasons:

1. We believe an assertion to that effect cannot be objectively and persuasively supported. We have reviewed the research studies presented by the Board in both the current Release and in the 2011 Release and find in them no relevant or persuasive empirical evidence, and without a robust system of obtaining reliable data about partners' historical performance records, would adequately link, directly or indirectly, the disclosure of the engagement partners' name in audit reports to an enhanced accountability or to higher "quality audits." We believe such linkage is pure speculation.

2. In view of the internal quality controls required to be employed by audit firms, regulatory oversight and other formidable risks and disincentives to poor performance already in place, mandatory disclosure of the name of the engagement partner would not add to the sense of responsibility and accountability of engagement partners or to "audit quality" in any measurable or otherwise meaningful way as some users claim.

Partners, as professionals, have long embraced ethical standards that require the highest level of due care; recognizing that the professional has a responsibility to the public, the client and the audit firm. Failure to carry out its responsibilities, evidenced, for example, by a deficient audit, subjects both the firm and its partners to grave risks of damage to their reputations and to their capital resources. Without identifying them in audit reports, those partners responsible for the conduct of a particular audit failure have sustained personal economic and professional risks beyond those of the audit firm.

In addition to the reporting firm, possible consequences to others for failure to comply with professional and regulatory requirements or to exercise appropriate professional skepticism, could include, but are not limited to, loss of licenses and livelihoods, damage to one's professional reputation, exposure to professional liability and related monetary penalties, and perhaps the threat of jail time. Accordingly, we do not believe that the institution of a requirement to name the engagement partner would heighten a sense of accountability.

Despite the inevitably of rule violators and the ever present potential for human error, audit partners, in general, are already operating at the highest level of ethical and professional responsibility that can reasonably be expected. If the Board has evidence to the contrary, more direct steps should be taken to stop unethical activity and unprofessional work than merely naming partners in audit reports.

13. ***What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?***

Although unable to provide any details in our response, we believe the cost of tracking data of other participants to determine what disclosures would be required under the reproposal, especially when there are many, are likely to be potentially significant and probably more burdensome for auditors of EGCs than those of other issuers.

14. ***What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?***

We do not believe that disclosing the names and other information about other firms participating in an audit provides significant, useful or meaningful information to users of financial statements. To the contrary, we believe that such disclosures could result in misunderstandings and confusion about the roles of the reporting auditor and other auditors in the performance of the audit.

If this reproposal were to be adopted, and consents were required to be obtained from other firms that are named in the auditor's report, problems in obtaining timely consents could conceivably arise, and addressing those issues could involve costs that currently are difficult to identify and quantify. Examples of such possible issues are a reluctance to provide consents, risk considerations, procedures to be performed before issuing consents, reaching other firms located outside of the U.S. and subsequent events considerations. In addition, premiums for professional liability insurance carried by firms named in the auditor's report could be affected to an extent indeterminable at this time because of an actual or perceived increase in the liability of such firms.

15. ***Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?***

As set forth in detail in our response to Question 8, in our view, the identities of other participants in the audit should not be disclosed.

We believe that if the reproposal were to be adopted, the application of the consent requirement to other firms would not contribute to improved compliance with existing requirements. Auditing standards require the reporting firm to supervise, evaluate and take full responsibility for the work of other participating firms whenever not making reference thereto in the audit report. It is the reporting firm's responsibility to assess the effectiveness of a participating firm's quality control policies and the procedures employed to ensure compliance with applicable auditing standards. Likewise, if the disclosure and consent requirements are adopted, we believe there could be an adverse consequence of appearing to shift the responsibility for an audit conclusion inappropriately from the reporting firm to all of the participants in the audit (the reporting firm and other participating firms), thus, giving the appearance of sharing of responsibility.

We do not see any likely differences in this regard when the issuer is an EGC as compared to other issuers.

16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

We do not support the disclosure of audit hours or percentages for "other" participants for a number of reasons including:

- The number of hours may include hours that relate to special procedures not required by the audit but included based on a request by the entity or its parent or by regulation within the entity's domicile. There might be hours related to different levels of work, for instance, high spot reviews, reviews of certain accounts that would not necessarily need to be audited, review level procedures, *etc*. which may have been included at the direction of the principal or primary auditor. In many cases these procedures are to be performed at the request of the principal or primary auditor. This scenario creates a situation in which hours would not be comparable.

- In situations in which hours are expanded, the utility of the information depends on the context (*e.g.*, changes to a system that was not adoptable to an acquisition or an entity's business strategy failing creating real and potential losses). The audit committee can evaluate what the principal auditor recommends to the other auditor(s) about those risks, but without these details and the context, accumulated hourly comparisons are not meaningful.

- See also our response to Question 13.

17. ***Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?***

We do not support disclosure of other participants' hours or percentages as explained in our response to Question 16.

18. ***Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.***

a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?

No, if it can be assured that the same kind of supervision and review, with gradations based on prior experience with the other entity(ies) performing the work and /or evaluation of the quality controls of the other firm(s) is present. The guiding principle is the reporting responsibility of the firm reporting on the issuer.

b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

We do not believe disclosure is warranted when firms decide to offshore certain work. The work that is sent is usually low level, low impact work. Because firms do not usually have direct control of the output, they would be cautious not to put their reputations and business at risk and they make sure the output is acceptable for their purposes. The probability of a significant negative impact that this business strategy decision would have on investors' decisions is remote.

19. ***Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?***

The structure of alternative practice auditing firms that lease staff professionals from affiliated entities would not create a need for disclosure of the amount of time incurred of the non-employees as other participants. We view these professionals as employees regardless of how they are paid. It is a substance over form issue in which substance should be the deciding factor.

20. ***Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged***

specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. ***Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?***

No. We believe the work of a specialist is just one example out of much audit evidence obtained and evaluated by the auditor pursuant the operative audit standard.[8] There is no justification for singling out specialists for mention in an audit report to the exclusion of all other types of audit evidence much of which may be more significant.

Should a requirement to include information about specialists be adopted, we believe a discussion of auditor reliance on the work of specialist would be likely to have the adverse consequence of appearing to shift responsibility for an audit conclusion inappropriately from the auditor to the specialist and be misleading to users of the audit report.

b. ***Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?***

See our response to Question 20a.

We believe that, if a requirement to disclose information about specialists were to be adopted, because of the appearance of shifting responsibility from the auditor to the specialist, many specialists would be likely to object to being mentioned in an audit report because of the additional exposure to liability risk that such a practice would present.

21. ***In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?***

See comment above.

No. See our response to Question 20a.

22. ***If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?***

Although we do not see any benefit to investors or other users of disclosing the name of the engagement partner, whether in the audit report or elsewhere, and, as we recently stated in our response dated December 10, 2013, to the Board’s Release No. 2013-005, we are not in favor of expanding the audit report with information of little or no value. However, we see no reason that

[8] Currently PCAOB Interim Auditing Standard AU Section 336.

it should be kept secret or not readily available to those who want to know. Accordingly, we believe disclosure in PCAOB Form 2 and/or Form 3 reports (the latter of which we see as adequately addressing the timeliness objection with regard to Form 2 reporting discussed in the current Release[9]) to be a practical alternative in compromise between those who believe the disclosure need not and should not be made in audit reports (primarily because of its lack of its utility and the potential to mislead) and those who seek this information. We do not object to such a compromise requirement**.**

Additionally, as suggested in the current Release,[10] we would not object if an audit committee were to choose (or be required by SEC regulation) to make such disclosures in public documents (along with any disclosure of auditor tenure) rather than as disclosures added to the auditor's report.

23. ***Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?***

As we pointed out in our December 10, 2013 Comment Letter in response to Release 2013-005 (regarding audit reports), as a practical matter, the great majority of brokers and dealers are not issuers and have no public investors. Therefore, members of the public, when using the annual audited financial statements, are not making investment decisions, but are using the annual audited financial statements in considering whether to conduct transactions using the broker-dealer (and in fewer cases) for the broker-dealer to have custody of its funds or securities. In addition, there is a high level of interaction between brokers and dealers and the regulators, and public disclosure available about such businesses and their key management individuals. Accordingly, we believe that the disclosure requirements would be of no or limited value.

24. ***Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?***

The current Release states, "Robust disclosure is the cornerstone of the U.S. federal securities regulatory regime and is essential to efficient capital formation and allocation. Access to meaningful information about a public company allows investors to make informed judgments about the company's financial position and about the stewardship of the company's directors and management."[11] As we have stated throughout in this letter, we believe the Board has not made a case that the proposed report disclosures would be meaningful to investors and financial statement users.

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9 Page 33.

10 Page 34.

11 Page 2.

25. *Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?*

As noted in our response to Question 11, we do not see any expected differences in the importance of the proposed disclosures when the issuer is an EGC as compared to other issuers.

Charles H. Noski
PO Box 97017
Redmond, WA 98052

January 13, 2014

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 029

Board Members:

I currently serve on the boards of directors of three public companies, and am Chairman of the Audit Committee of two of those companies. I have read the submission of Dennis R. Beresford dated January 6, 2014 regarding this proposal (copy attached) and am in full agreement with the views expressed therein. Thank you for the opportunity to express my views on this important matter.

Sincerely,

Charles H. Noski

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706 542-3502

January 6, 2014

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

Rulemaking Docket No. 029

Board Members:

These are my comments on PCAOB Release No. 2013-009, "Improving the transparency of audits: proposed amendments to PCAOB auditing standards to provide disclosure in the auditor's report of certain participants in the audit." In summary, the Exposure Draft (ED) would require disclosure in the auditor's report of (1) the name of the engagement partner, and (2) names, locations and extent of participation of other accounting firms and other persons that took part in the audit. My comments are derived primarily from perspectives gained from serving as chairman of the audit committee for five large public companies over the past twelve years, but also from my earlier 26 years in public accounting audit practice serving many SEC registrants.

In summary, I do not support naming the engagement partner in the auditor's report. It is not meaningful information to users; the forthcoming work on Audit Quality Indicators promises to produce more useful data. Further, the notion that naming the engagement partner will somehow increase his/her accountability is simply wrong. I do support the disclosure of "other parties" although I believe the disclosure needs to be supplemented in order to clarify the signing firm's oversight responsibilities. Otherwise, it could be more confusing than informative, particularly when the "other parties" share a common name with the signing firm.

My reasoning for these positions is presented in the following two major sections of this letter.

Naming the Engagement Partner

What is the real objective of naming the engagement partner and will it be achieved? - As noted in the description of the ED, the Board believes that naming the engagement partner in the auditor's report will "improve the transparency of audits." The Introduction goes on to say that the Board believes this information "would be useful to investors and other financial statement users and would be consistent with the Board's mission to further the public interest in the preparation of 'informative, accurate, and independent audit reports.'" The Release describes ways in which service providers might begin to gather information on engagement partners in the future that investors and other users could find helpful. Enhanced user information appears to be the principal reasoning for the Board's conclusion that the engagement partner's name should be required. In the words of Board member Jeanette M. Franzel, "Today's release states that the primary benefits of the current proposal pertain to disclosure, or transparency."

However, on page 5 the ED states, "The Board also recognizes that many investors as well as some other commenters believe that these measures would prompt engagement partners to perform their duties with a heightened sense of accountability to the various users of the auditor's report." Again quoting Ms. Franzel, "The release also suggests that such disclosure may create an incentive for auditors to voluntarily take steps that could result in improved audit quality." Later she notes, "Today's release does not explain why the Board has changed its objectives for the reproposal from accountability to disclosure of useful information for investment decisions (as names are collected over time and combined with other unspecified information). And, with those changed objectives, the Board is now in a position to surmise how, or hope that, such information may be compiled and made useful over time."

This change in objective is even more troubling given concerns raised at an earlier date by then Board member Dan Goelzer regarding the appropriate role of the PCAOB. He questioned whether naming the engagement partner was more of an SEC proxy disclosure issue than a PCAOB auditing matter. In his statement at the meeting at which the earlier ED was adopted, Mr. Goelzer stated, "The partner's name may be relevant to the shareholder vote on selection of the auditor. However, the disclosure requirements of the federal securities laws, including the proxy rules, are administered by the Securities and Exchange Commission. Unless engagement partner disclosure can be directly linked to improving audit quality, or to promoting understanding of the financial statement audit or of the Board's inspection program, the issue would seem to fall in the SEC's bailiwick."

Chairman Doty appeared not to emphasize a single objective for naming the engagement partner in his remarks at the AICPA National Conference on SEC and PCAOB Developments on December 9, 2013. While he began his comments on "audit transparency" by stating that "Investors have long asked for the names of engagement partners to be disclosed, in order to give them more information about the auditor," the rest of his comments on that topic focused largely on the "quality improvement" objective. For example, "… it holds the promise of improving audit quality by sharpening the mind and reminding auditors of their responsibility to the public." And, "In many fields, disclosure – Justice Louis Brandeis called it 'sunlight' – has given numerous fields and professions the information they need to see and then remedy a problem."

I believe an astute assessment of the purpose of disclosing the name of the engagement partner was contained in the comment letter on the earlier ED of Professor James L. Fuehrmeyer, Jr. of the University of Notre Dame. Professor Fuehrmeyer, a former senior audit partner with Deloitte & Touche, included the following excellent analysis in his comment letter dated December 13, 2011, which I believe applies just as much to the current ED:

> The Proposed Amendments appear to reflect the notion that the investment community should grade the audit in the same way rating agencies grade securities. The Board should not expect individual investors to grade auditors. We already have a process in place to evaluate auditors and audit firms and that process falls directly under the responsibility of the registrant's audit committee. That committee is directly charged under the Sarbanes-Oxley Act with responsibility for "the appointment, compensation and oversight of the work of any registered public accounting firm employed by that issuer…" Audit committees are charged with evaluating and selecting auditors. The Proposed Amendments would undermine that process.
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> The Proposed Amendments place too much emphasis on the role of one individual. Audits are conducted by teams of individuals; the largest audits have numerous partners, managers and staff comprising the audit team. While the signing partner has overall responsibility and signs the opinion on

behalf of the firm, it's not an individual project with technical support. In many cases that lead partner is not the only key player in the conduct of the audit. For example, a partner supervising the audit of a major corporation with highly material exposure for asbestos related claims or supervising the audit of an insurance company would rely extensively on the work of the actuarial specialists who are part of those audit teams. The lead partner on the audit of a financial institution engaged in loan originations and securitizations would depend on the work of financial instrument specialists in the valuation of individual deals. Lead partners must rely on specialists in many areas including business valuation, international taxation, management information systems, government contracting, medical claims evaluation, appraisal of real estate, translation from other languages into English, computer system security, engineering and a host of others. Many engagements use multiple specialists and no one on the Board would expect the lead partner to be a specialist in all areas. Evaluation of the quality of the firm's performance as the auditor includes evaluation of its capabilities in all of the many areas of specialization that pertain to the registrant's business. That evaluation is not captured in the disclosure of a single name or in the disclosure of the countries of origin of offices participating in the conduct of the audit. However, all of that information and more is routinely considered by audit committees as they fulfill their responsibility to oversee the independent auditor.

I fully agree with Professor Feuhrmeyer's analysis and his point was reinforced by a January 9, 2012 letter from The Center for Capital Market Competitiveness on the earlier ED. Rather than improving audit quality, which is at least a secondary (if not implicit primary) objective for this new disclosure, the Center believed the disclosure could have the opposite effect. "It is also problematic that the PCAOB continues to move in the direction of expecting engagement partners to somehow build their own individual reputations for audit quality, independent of their firm's reputation, undermining accountability in the audit process and harming investor protection."

The PCAOB suggests that naming the engagement partner could provide valuable information to investors as third parties collect that information over time and collate it with information on restatements, going concern opinion modifications, enforcement actions, and individual-specific data such as education, awards, publications, etc. One question that might be asked is if that is such a great idea, why isn't it being done now? For many years the identity of the engagement partner has been known by his or her appearance at the company's annual shareholders meeting. If gathering and analyzing these relationships were truly useful to investors, in today's information age some enterprising businessperson probably should have already started gathering the data. Granted, it would be a lot easier to do so should the names simply be listed in the auditor's report but there won't really be any new information provided.

In thinking about how these data might be gathered and used, I urge the Board to consider the following. At least for the largest accounting firms serving public companies with the greatest market capitalizations in which there is the most investor interest, it would be unusual for an individual to become an audit partner before his or her early 30's. And it probably would be unusual for such a person to immediately become an engagement partner upon being admitted to the partnership, at least for a client that has a large market capitalization. And given an approximate age 60 retirement date for these individuals, they would likely have only approximately five "rotation opportunities." Of course, it is quite possible that many of them could serve more than one public audit client at the same time but those clients would generally then be smaller and of less investor interest. And the last rotation would be of no information consequence as the partner would retire after completing service on that engagement.

Thus, the data being gathered could reflect service on a relatively small number of clients for each partner over a twenty-year period – a fairly limited data base on which to draw any meaningful conclusions. Assuming none of the "negative factors" mentioned in the ED are present (see discussion below), there might be little information of consequence gathered about such individuals that would be of relevance to investors, except, perhaps, information about previous service for very specialized industry clients.

Rather than supposing that data gatherers would begin to accumulate this information over time and that it might be meaningful, wouldn't it make sense to first ask some of the accounting firms to do a little "field testing" to see how much information could be accumulated for a sample of partners? (Perhaps the PCAOB already has that information in its own records and could do so – I'm not familiar with the Board's records on engagement partners, etc.) If some data could be produced from such an experiment, it might then be shown to the users who claim they would find this to be meaningful in their investment decisions and they could be asked how it would actually be used.

Would audit committees find this information useful? – In addition to stating that some users have called for disclosure of the name of the engagement partner, the

PCAOB seems to think that some audit committee members would find this new disclosure useful. For example, on page 8 of the ED the Board states in its discussion of the comment letters on the earlier ED, "Others, such as some audit committee members and corporate officials, as well as an association of European auditors, shared the investors' views and expressed the view that naming the engagement partner in the auditor's report would be beneficial (my emphasis)." This led me to review the comment letters on the 2011 Release.

I found only two comment letters from individuals who identified themselves as having been audit committee chairs.

> Letter No. 11 from Mr. Jack Henry stated in part: "Your proposals for mandatory rotation and identification of the signing partner both strike me as solutions looking for a problem to solve. Neither proposal appears to be based on empirical evidence that the current state is broken and would be improved by either proposal." His letter goes on to state, "Identifying a signing partner is contrary to the way audits are performed. They are done by teams and the teams include more than a single partner. Major decisions are made by national offices, not signing partners." Mr. Henry noted that he had been with Arthur Andersen for 34 years before retiring from that firm.
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> Letter No. 41 from Mr. Gilbert F. Viets stated in part, "My own experience as an auditor, board member, audit committee chair and meager investor suggests that disclosure of personal names of audit partners or staff is not necessary and ranks far down the list of things that will help solve problems we have had this past decade in getting correct financial statements. Many express a similar view. However, I see no harm in the proposal and looked (sic) forward to the responses of others."

Frankly, it is disappointing that so few audit committee representatives commented on the earlier Release, and that motivated me to do so this time. But I find it very difficult to understand how the Board can represent that "some" audit committee members agreed that disclosing the name of the engagement partner would be beneficial based on the comment letters received on the earlier ED. Frankly, in the spirit of auditor skepticism, I would have expected Board members to have challenged and more carefully fact-checked such a counter-intuitive statement in the current ED.

In his remarks to the AICPA conference, Chairman Doty also suggested that audit committees would be direct beneficiaries of the new engagement partner information as it is gathered and analyzed over time:

> Nor can the responsibility to select only the best engagement partner be placed at the feet of audit committees, unless we provide audit committees better information against which to benchmark. Diligent audit committees try to obtain information about, and pay careful attention to, a proposed engagement partner's history. But today most of that information must come from the very firm putting the partner forward. The lack of generally available information about engagement partners limits audit committees' ability to meaningfully assess and compare the partner's qualifications and experience.

I respectfully disagree with Chairman Doty. Based on my experience and discussions with scores, if not hundreds, of other audit committee chairs and members through various seminars and other meetings over the past few years, no one has suggested the need for public information in order to meaningfully assess qualifications and experience. In fact, it is just the opposite. We are able to dig deeply into the individuals' background and experience through confidential sources rather than relying on the type of limited public information that would be gathered under the PCAOB proposal and would often be out of date. Further, depending on the size and the nature of the engagement, there is usually more than one candidate for engagement partner rotation, and they are subject to in-depth interviews on a subjective basis. Also, it has become a general "best practice" to inquire of the audit committee chairs and CFOs with whom candidates previously worked to learn about past performance. This would include important matters such as:

- Did the partner inform management and the audit committee about accounting and auditing issues that arose on a timely basis rather than possibly allowing them to worsen into larger issues because of a failure to communicate promptly?
- Did the partner have an effective relationship with the audit committee chair that made clear the firm's reporting relationship was to the committee and not to management?
- Was the partner successful in building good rapport and trust with all members of the audit committee and not just the chairman?

As an example, for one of my previous audit committee engagement partner rotation decisions, let me briefly describe some of our process. After reviewing resumes of several potential candidates identified by the firm, we selected three finalists for in-depth interviews by the audit committee and management. After initial interviews, one candidate was eliminated and our final decision came down to a choice between two individuals who the audit committee considered very well qualified. One candidate had more international experience, which was a plus. One had previously not served as an engagement partner on such a major audit but had been an assisting partner on an even larger audit – the other was rotating off being engagement partner on a major account. One was a female and one was a male, and our end customers were largely females. Neither had experience exactly the same as our industry, but our business was sufficiently general so that wasn't considered to be a problem. One had more national office contacts through service on firm committees, thus giving us more comfort that we would receive prompt assistance at that level when needed. Both individuals were well known to and were considered excellent by our outgoing engagement partner, with whom we had developed a high degree of trust.

The point of the above is simply that our final decision was a thoughtful judgment after weighing all of the competing factors (I listed only a few). That is a significant responsibility assigned to audit committees under the Sarbanes-Oxley Act and it is taken very seriously. Most of the types of information mentioned above (as well as the type of information from interviews with other audit committees served) could never be captured in a public disclosure system. At best, disclosing the name of the engagement partner and accumulating some related information over time will only be piecemeal and perhaps even misleading.

My experience has been primarily with quite large public companies and it may well be the case that naming the audit partner could be more useful for audit committees of smaller public companies. However, if they are served by smaller accounting firms, they will have much less choice among engagement partners in the first place so having the information made public wouldn't be meaningful to audit committees of those companies either. In short, I don't agree with Chairman Doty's remarks on this matter and believe the Board should challenge the assertion before accepting it as a possible reason for adopting a final rule.

AQI – A more promising approach - The PCAOB's Audit Quality Indicators project, while in an early stage, shows great promise of providing meaningful information to investors and other users of audited financial statements about the quality of audits. Naming the engagement partner is at best a premature and small part of the AQI package, and more likely not a meaningful indicator at all. I support the Board's efforts to develop useful AQI's and look forward to the forthcoming Concepts Release as the first public step in that process.

<u>The proposal accentuates the negatives</u> - I'm very concerned about the overly negative emphasis in the matters that the Board suggests might be gathered and disclosed about a named engagement partner. The types of matters related to the engagement partner that the Board thinks might be gathered in the future include association with restatements, going concern modifications, and enforcement actions – all quite negative matters. While some of the suggested personal information, such as previous industry experience and "awards," are more positive, overall this seems to be an exercise to ferret out bad actors rather than identifying high quality performers. As noted below, I have reservations about each of the "negative indicators" suggested in the ED as to how they would be implemented in practice and whether they would, in fact, be meaningful to investors and other potential users of the information. I also am concerned that emphasizing the negatives could just add to the stress faced by so many audit partners in today's world who already may feel that PCAOB inspectors are the enemy and are "out to get them." I hear quite often about this unnecessarily adversarial attitude and the reality that many, well qualified individuals are being driven out of audit practice by what they perceive as a "gotcha" mentality of the inspections staff.

The Release suggests looking for association with restatements but which partner really has the principal responsibility? The one who signed the report when an error was first made? The one who signed the report when it was corrected? What if the correction was a change in understanding of the application of an accounting standard such as occurred for certain lease accounting issues several years ago that occasioned a couple of hundred restatements? There are so many questions involved here that users would almost have to have an FASB or SEC rule to know how to judge whether a restatement was or was not a black mark on an engagement partner's record.

And the Release seems to equate a going concern modification with negative performance by the engagement partner. To the contrary, standing up to the client and insisting on such a position often takes great courage as it can have extremely damaging consequences to a company. This may actually be a positive rather than a black mark!

As for involvement with PCAOB or SEC enforcement actions, I am reasonably confident that accounting firms withdraw the offending partners from active management of public audit engagements in most if not all cases, certainly for those with a significant market capitalization. In any event, it is impossible for me to imagine that an audit committee would accept a new engagement partner with such a blemish on his or her record. Thus, I don't see the need for further user information or public protection beyond what is presently available with respect to enforcement matters.

Greater accountability? Not! - As noted by Ms. Franzel, "The release also suggests that such disclosure may create an incentive for auditors to voluntarily take steps that could result in improved audit quality." Board member Steve Harris stated, "Investors and others have asserted that disclosure of the engagement partner's name will produce a heightened sense of accountability for the audit on his or her part, which will lead to more robust audit behavior and higher quality audits. This is not surprising, given that personal accountability is a foundation of performance in all walks of life." However, Board member Jay D. Hanson, who has actually "been there, done that," accurately observes, "Accountability for audit engagement partners, in my experience, is already built into the system." Mr. Hanson also noted that the Board had found no evidence that identifying audit partners will enhance the accountability of those partners and therefore enhance audit quality.

I fully agree with Mr. Hanson based both on my own auditing experience with a major accounting firm and in dealing with engagement partners with most of the largest accounting firms in my capacity as an audit committee chairman over the past twelve years. It is most disrespectful to engagement partners to suggest that they will somehow heighten their sense of accountability when named in the accountant's report. Now, they sign their name in the firm's review and approval forms in order to issue the auditor's report, which is the point at which they accept full responsibility for that report. They also realize they are subject to inspection by the PCAOB and their career is at stake should the inspections team find serious fault with the work on their audit. And, of course, their various judgments and other audit work are all subject to the firm's independent quality review, SEC review, civil litigation, etc. Further, they are continually challenged to do their best work by the audit committee. To suggest that somehow there is another level of quality to which they can rise as a result of being named in the auditor's report is both naïve and almost insulting, in my opinion.

A modest suggestion – As noted earlier, I suggest that the Board give a lot more consideration as to how the engagement partner name might be gathered and analyzed. If Board members can't think through what would be a reasonable way in which these data would be used, it isn't appropriate to start forcing firms to begin disclosing the information. Working with accounting firms to gather what a sample of engagement partners would actually have had reported about them would be a good place to start in working toward whether this could be meaningful information.

Disclosing Certain Other Participants

I am in general agreement with the proposed disclosure of other participants in the auditor's report. And I support the changes to the earlier ED with respect to the minimum 5% cutoff for disclosure and the use of approximate percentage ranges. The ranges the Board has chosen seem appropriate.

I am, however, concerned about how investors will interpret disclosure of the fact that entities that are part of the global network of one of the major accounting firms are performing part of the audit. For example, without getting into confidential information, one of my former board companies was audited by Deloitte & Touche LLP in the United States. That firm, of course, was inspected by the PCAOB. But the company in question had extensive operations in Europe, Asia, Latin America, and Canada. In fact, approximately 50% of its revenues were from international sources. Deloitte performed statutory audits for most of the foreign locations and a material portion of them were included in the financial statements audit.

Using the example language beginning on page A2-6 of the ED, disclosure of that situation might be included in an Appendix along these lines (these countries and percentages are just made up by me for illustration purposes):

> 5% to 10%:
> - Deloitte & Touche LLP (United Kingdom)
> - Deloitte & Touche LLP (Hong Kong)
>
> Other participants whose individual aggregate extent of participation was less than 5% - fourteen other firms (should we say these were all Deloitte firms?) whose individual extent of participation was less than 5% of the total audit hours, participated in the audit.

While it is possible that users can be educated as to the meaning of this disclosure over time, at least initially I think many will be confused rather than informed by a Deloitte report that says that Deloitte performed part of the audit! This, of course, is important to know if one is interested to check on the (material) parts of the overall audit that weren't subject to inspection by the PCAOB. But it's the audit committee that is the first line of defense on this matter and that committee will have reviewed the accounting firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control or peer review, or any investigations of the firm. That committee will also have asked other, appropriate questions to be satisfied that the audit performed in all locations is of uniform quality.

I believe a disclosure along the lines of the sample I've suggested above needs to be supplemented with some language in the auditor's report to eliminate the possibility of a reader assuming that the "other participants" named in the report are of significantly lower quality. This could be done with wording that covers the signing firm's oversight, supervision, and review responsibilities over the other firms (including whether the other firms have been subject to the signing firm's inspection program). Perhaps the audit committee will also feel obliged to say something in the future in its report to indicate its satisfaction with the quality control procedures applied by the signing firm.

I can understand why the disclosure of other participants may be even more obvious and important in situations where a global alliance (e.g., "CPA Firms R us Worldwide") includes fully locally-owned and operated under different named firms. However, even there I would assume that further disclosure along the lines of what quality control procedures the signing firm has applied would be appropriate.

To be clear, while I generally support the proposed disclosure of other firms involved in the audit, I believe that absent accompanying explanations of the signing firm's oversight, etc., this disclosure would be so incomplete that it should not be included in the auditor's report. In that case, perhaps a discussion of the matter could be included in the audit committee report in the proxy statement or in material in the proxy statement related to a shareholder vote on auditor ratification.

With respect to the requirement for disclosure of Persons Not Employed by the Auditor, I understand the general reasoning for not naming all of the individuals or firms so included. However, it seems to me that if the percentage of the total hours performed by an individual is material to the overall audit, the reader should receive further information. I would assume that would be an unusual circumstance (perhaps it would never happen!) but if more than 5% of the total hours were performed by one of these individuals, I would suggest they should be identified by name and the nature of their services be stated.

I would be pleased to discuss any of the matters in this letter with you at your request.

Sincerely,

Dennis R Beresford

Dennis R. Beresford
Executive in Residence

Thomas F. Palmeri, CPA
9328 Elk Grove Blvd., Ste 105-146
Elk Grove, CA 95624

December 4, 2013

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803

Submitted via Email: comments@pcaobus.org

RE: Public Comment
PCAOB Rulemaking Docket Matter No. 029

Position: Support the Proposed Standard

The proposed amendment to require disclosure of the engagement partner on the Auditor's Report is a long overdue standard that should be approved and implemented. The opposition by CPA firms is without merit. In applying for financing, purchasing buildings, and filing of tax reports, a partner or other responsible party must sign their personal name on behalf of the firm. No agency or financing entity accepts the signature of the firm name as is done on the auditor's report.

The argument that this requirement would subject the engagement partner to liability is not valid. As a matter of business practice, the firm would and is required to provide legal assistance and financial responsibility for the acts of its employees. Not only do CPA firms maintain professional liability insurance, most engagement partners maintain their own personal liability policy typically paid for by the firm.

The disclosure is simple to implement. The signature block should include the name of the partner signing the Auditor's Report and the signature should be that of the partner on behalf of the firm, not the firm name as the actual signature. This is in agreement with best business practices and fulfills the crucial standard of independence and transparency required in audit engagements. Additionally, as noted in the discussion presented by the PCAOB, it would conform to the practice used in other highly developed economic countries.

The information is useful to investors and creditors as trust and ethics are attributable to the quality of engagement partner not the firm. Such a requirement may have been beneficial to prevent the unchecked debacles exhibited in the audits of companies such as: Enron, Adelphia, and Bernard L. Madoff Investment Securities.

Having been on both sides of an audit, as an engagement partner and as the Internal Lead Accountant, I know firsthand the benefit of this information. As the lead accountant I have had to correct both the Audit Supervisor and the Engagement Partner in the preparation and reporting of the financial statements. In fact I had to recommend revisions to their reports due to errors they missed in their review. In checking the licensing of both CPAs, the Audit Supervisor had been licensed for less than three years and the engagement partner 9 years. They both were promoted to fast, in my opinion, to take on such responsibilities and the disclosure of both individuals would benefit investors and other interested third parties.
As a practicing CPA with 25 years of licensed experience, I firmly support the proposed amendment to the auditing standards requiring the disclosure of the audit staff of the responsible firm and the signature, with license number and state of issuance, of the engagement partner on the Auditor's Report.

Additionally, the disclosure of other professionals responsible for parts of the audit should be referenced in the auditor's report as a supplemental listing presented as a separate report following the Auditor's Report. The purpose of implementing this requirement this way is based on two reasons. First the listing may be confusing to the user of the statements as to who is ultimately responsible for the opinion stated in the auditor's report. Second, the listing may be quite lengthy and distract from the opinion presented in the Auditor's Report.

Respectfully submitted

Thomas F. Palmeri
Certified Public Accountant

Pennsylvania Institute of Certified Public Accountants

March 17, 2014

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803
comments@pcaobus.org

Re: PCAOB Release No. 2013-009, Docket Matter No. 029: Proposed Amendments to Auditing Standards to Improve the Transparency of Audits

The Accounting and Auditing Procedures Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the Proposed Amendments to Auditing Standards. The PICPA is a professional association of more than 20,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators.

1. Proposed requirement to name the engagement partner
    a. No improvement in audit quality – The committee does not believe that requiring the partner to sign the audit opinion would improve audit quality. Firms design their audit approaches to comply with the existing standards. Therefore, it is unlikely that the work currently performed in connection with the audit will change in the absence of specific changes to the audit standards. Instead, the committee believes that users may misinterpret the role of the signing partner, not considering that the audit is performed within the context of a firm's system of quality control.

    b. Potentially misleading – The signature of the partner may also mislead users to think that the signing partner is responsible for the financial statement results, or somehow personally certifies the information being provided. This misunderstanding may also lead users to seek information directly from the signing partner, posing potential ethics compliance related threats (e.g., AICPA Code of Professional Conduct ET100 - 1, *Conceptual Framework for AICPA Independence Standards*, advocacy threat, and ET 301, *Confidential Client Information*). Ultimately, the committee believes that the proposed required signature could lead to increased personal liability and potential security concerns for the signing partner.

    c. Potential increase in legal liability for the signing partner – While personal signatures and names of the engagement partners in the audit report are required in certain jurisdictions, the legal environments in those jurisdictions may not be the same as in the U.S. Some jurisdictions, especially the U.S., are more litigious and could expose

PICPA
Pennsylvania Institute of Certified Public Accountants

the signing partner and the partner's family to unwarranted and costly litigation, whether any fault lies with the partner or not. The committee believes that this will result in greater legal liability for the signing partners, and translate into recruitment challenges for firms. Higher audit fees are also likely.

d. Physical safety – The committee is also concerned with the safety of the signing partners and their families, and is mindful of the potential for violent activism or an irrational reaction from a shareholder who has lost money. As an example, the committee recalls the 2003 London animal rights activist incident in which a city block in front of the Deloitte building was closed and protests took place outside the homes of the auditors. [See the following link for a column in *The Guardian*, "Auditors under fire over animal right." http://www.theguardian.com/uk/2003/feb/20/businessofresearch.research] The committee does not believe individual partners should be exposed to such security threats.

2. Anti-competitiveness impact of databases grading partners – The committee believes that the creation of databases that grade partners could result in a permanent structural bias against smaller, less-known firms. Audit committees may be reluctant to engage firms or partners that are not already well-established, known within the industry, and highly graded by the industry database of audit partners discussed in the proposal. The resulting impact is contrary to public policy efforts to reduce the concentration of audit firms auditing public companies.

3. Disclosure about certain other participants in the audit – The committee does not support the disclosure of the specific names and locations of the other auditors participating in the audit. The committee believes that the financial statement users may be misled about the role of the other auditors versus the primary auditor. In lieu of specifically naming the participating auditors, and given the overall responsibility of the signing audit firm, the committee supports a generic disclosure about the use of other independent auditors. Additional concerns are enumerated below:
    a. Harm to smaller firms participating on the audit – The committee is concerned that adding a requirement to disclose the other participants in the audit would have a detrimental effect on the use of other audit firms, which in many cases are smaller firms. Specifically, the committee is concerned users may raise questions about the overall quality of the audit if the other firm being utilized is smaller, and possibly not as well-known or highly-graded in the proposed databases. The committee believes that firms will be reluctant to rely on other auditors and will move to bring that work in-house rather than having to disclose that they used other auditors. The end result will be to reduce the work for smaller firms. As the firm signing the audit opinion is required to take overall responsibility for the work performed by other auditors, such work must be performed to the standards required by the signing firm. Therefore, it is unclear what is being accomplished by this proposed requirement.

b. Legal liability for participating firms – The disclosure of the other audit firm participating on the audit could also increase the legal liability of the participating firm. Financial statement users may seek to hold them accountable for a greater portion of the audit work than they actually performed. These firms may be reluctant to accept this exposure, resulting in less firms being involved in the market.

c. 5% threshold for disclosure – While the committee disagrees with any proposed requirement to disclose the other firms that participated on the audit, the committee believes that the proposed 5% threshold is onerous. If the board requires this disclosure, the committee suggests a significant increase in the threshold to 30% or more.

4. Employment versus affiliate relationship – Page 16 of Release No. 2013-009 includes the following:

 > "In the 2011 Release, the Board indicated that disclosure of any offshored work would not be required to the extent that the offshored work is performed by another office of the same accounting firm, even though that office may be located in a country different from the country where the firm is headquartered. The staff of such office is employed by the accounting firm issuing the auditor's report."

 The committee is not convinced that the employment relationship in foreign countries referred to in this exemption is sufficiently different from affiliate relationships utilized by international networks. It is unclear, for example, whether personnel employed at an affiliate could be temporarily employed by the accounting firm issuing the auditor's report in order to get around the disclosure requirements. The committee requests that the related requirements be better clarified to remove inconsistencies.

5. Appendix K reviewer – Release No. 2013-009 page 15 also indicates that the Appendix K reviewer would be exempt from the disclosure requirements. Given the importance of this work to the overall system of quality control over engagement performance, it is unclear why this work would be treated differently than the rest of the audit engagement.

We appreciate your consideration of our comments, and we are available to discuss any of these with you at your convenience.

Sincerely,

Allison M. Henry, CPA
PICPA – Vice President – Professional & Technical Standards
Staff Liaison, PICPA Accounting and Auditing Procedures Committee

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

February 4, 2014

RE: PCAOB Rulemaking Docket Matter No. 029, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*

Dear Madame Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") proposals, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* ("Proposing Release"). These proposals would amend the Board's auditing standards to require the audit report to include (1) the name of the engagement partner on the most recent audit and (2) information about independent public accounting firms, other than the principal auditor, and certain other persons that participate in the audit ("Audit Participants"). The proposals modify the Board's prior proposals issued in 2011.[1]

INTRODUCTION AND RECOMMENDATIONS

In our comments on the 2011 proposal, we supported the objective of promoting transparency and providing users of financial statements with appropriate information to enable them to assess the qualifications and capabilities of the registered public accounting firm that attests to an issuer's financial statements. However, we expressed concerns that the Board's proposals may not provide meaningful information to users of audit reports or enhance audit quality. We also expressed concerns about the potential litigation impact on the persons proposed to be identified in the audit report.

We believed then, and still believe, that the most relevant and useful information for users in assessing the quality and reliability of an audit is the identity of the firm itself, not the name of the individual engagement partner who is unlikely to be known to the public. To the extent users need information about the firm and its audits, they have available to them the firm's public filings with the PCAOB and the PCAOB's inspection reports. Many firms also make public their own quality control reports pursuant to NYSE rules, and some firms, including ours, issue audit quality reports that provide information beyond what is required by the NYSE. The Board's project related to audit quality indicators also has the intent of providing useful information about the firms.

Nonetheless, in our comments on the Board's 2011 proposal, we recognized that many users ascribe value to information regarding the identity of the engagement partner. We expressed our support for one aspect of the Board's proposals—that the engagement partner be identified in the firm's annual report on Form 2—if it was coupled with identification of a member or members of firm leadership in Form 2. We

[1] *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*, PCAOB Release No. 2011-007 (Oct. 11, 2011) ("2011 Release").

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believed that including information about firm leadership would alleviate any misimpressions that the audit is the product of the engagement partner, rather than the firm.[2]

The Board did not incorporate our recommendations about engagement partner and firm leadership identification into its revised proposed standards. Unlike the prior proposal, the Proposing Release does not provide for any Form 2 reporting. In response to our and others' comments, the Board has modified its proposal regarding Audit Participants in certain respects, including by increasing the threshold for identification from three percent of total hours incurred in the audit to five percent, limiting the Audit Participants who are identified by name to other accounting firms, and permitting reporting in percentage ranges instead of a specific number.

We renew our prior support for transparency, through means other than identification in the audit report itself, about the name of the audit engagement partner, when coupled with the name of a member or members of firm leadership. We also support providing the prescribed information about Audit Participants through means other than inclusion in the audit report. We continue to believe that the perceived benefits of including information about the engagement partner and other Audit Participants in the audit report itself are substantially outweighed by the significant potential litigation risks and costs that this creates and the practical difficulties created by the requirement to obtain consents.

For these reasons, which we discuss further below, we urge the Board pursue a reporting mechanism other than the audit report, as we believe there are alternative mechanisms to advance the Board's objectives while mitigating the negative consequences of including information in the audit report. The alternatives include the following, but there may be other workable approaches:

- Establishing a new PCAOB reporting mechanism—either in existing Form 2 or a new reporting format—that would require firms, on a reasonably current basis, to identify the engagement partner and member or members of firm leadership, and to provide the prescribed information about Audit Participants.

- Pursuing alternatives that would make the aforementioned information available in a company's proxy statement or other public filings with the SEC, in such a manner that it would not be incorporated by reference into any Securities Act registration statements.

Regardless of the location of the information, we believe it is important to assist users in putting the new information in appropriate context and not drawing unwarranted conclusions about the engagement partner or the audits he or she oversees. For example, we think users need to understand matters such as:

- An audit is the responsibility of the firm that issues the audit report, not just the individual identified as the engagement partner.

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[2] We also suggested that, if the Board did pursue the identification of the engagement partner in the audit report, it make it subject to other conditions that, in our view, would mitigate our concerns regarding litigation risk. Our proposals included adopting the proposal for a provisional period of five years to allow the Board to monitor the development of the law and deferring effectiveness of the proposal until the SEC took action to assure that engagement partners would not be considered "experts" for purposes of liability under section 11 of the Securities Act. *See* Letter from PricewaterhouseCoopers LLP, PCAOB Rulemaking Docket No. 029 (Jan. 9, 2012) ("PwC 2012 Letter").

- An engagement partner should not be associated with a company's issues, such as a business failure due to the company's business model or performance, or other factors affecting stock prices or valuations.

- The fact that a company may have a restatement should not be reflexively attributed to an individual engagement partner, because a restatement can be the result of many factors outside of the auditor's control.

- Users should not draw conclusions about the expertise and experience of an engagement partner based only on the public company engagements that he or she may be identified with pursuant to the Board's auditing standards; a partner may have significant other experience that has prepared him or her to be the "lead" engagement partner, and qualified partners should not be denied opportunities to serve as an engagement partner because they do not meet criteria developed based on the public record.

- Similarly, in considering the qualifications of an individual to serve as engagement partner, users should also understand that others within the firm significantly contribute to the audit.

- As to Audit Participants for which information is provided, the principal auditor is responsible for the entire audit and expresses an opinion about the financial statements taken as a whole; the principal auditor must take steps to satisfy itself that it can rely on the work of the Audit Participants in rendering its audit report (except in those cases where the principal auditor expressly does not take the responsibility for the audit of a component of a company that is audited by another firm).

The Board can help convey this proper context by a variety of means, including through its rulemaking releases, appropriate notices on the reporting sites and educational outreach to users and other constituencies.

DISCUSSION

We support transparency about the engagement partner and Audit Participants *as long as* the benefits of providing that information are not outweighed by other considerations. The Proposing Release rests principally on a disclosure rationale—information about the engagement partner and Audit Participants will be useful to users of financial statements. The Board has appropriately de-emphasized the rationale set forth in its 2011 proposals that identification of the engagement partner would enhance engagement partner "accountability," which the Board posited would lead to improved engagement partner performance and improved audit quality. Based on the disclosure rationale, we accept that users will in fact ascribe value to this information, but we believe that the benefits can be achieved through alternative means for conveying the same information in accessible formats. Including the names of the engagement partner and Audit Participants in the audit report itself—as opposed to alternative reporting methods—creates risks of liability and practical challenges that substantially outweigh the benefits of including the information in the audit report.

We first discuss alternatives that could provide the benefits sought by the Board. We then address the litigation risks and practical challenges that we believe outweigh the benefits of including the information about the engagement partner and Audit Participants in the audit report.

Alternative Means to Provide Transparency

We believe that alternatives are available that would make information about engagement partners and Audit Participants as accessible to users as inclusion in the audit report. Indeed, using an alternative mechanism might in fact facilitate the ability of interested parties to obtain information about engagement partners and Audit Participants. Alternative transparency mechanisms could include:

- *PCAOB Reporting Mechanism*. The Board could establish a requirement that identification of the engagement partner and information about the Audit Participants be reported in a filing with the Board. This mechanism could be incorporated into current Form 2 or a new form. The firm would identify the engagement partner and a member or members of firm leadership in a format other than the audit report itself in the filing. This form of transparency would be responsive to the requests of users but also make clear that the engagement partner alone is not responsible for the issuance of the report. Similarly, information about Audit Participants could be included in the PCAOB filing. The reporting could be required on a periodic basis so that the information would be reasonably current after issuance of the relevant audit report. For example, a quarterly report could be required for all audit reports issued during the quarter or the information could be reported to the PCAOB within so many days after the issuance of the audit report, if there is a need for it be timelier. This would address the concerns expressed by the Board that providing the information on the firm's Form 2 annual report would not be easily accessible to users and would not be timely. Besides providing information comparable to the information that the Proposing Release would include in the audit report, this report would provide a single source for searchable information about a firm's engagement partners, which would be more convenient for users than having to derive the information from multiple, separate SEC reports. We do not believe that the costs of complying with this requirement would be significant for accounting firms.

- *Enhanced SEC Disclosure*. The Board could pursue alternatives that would make the aforementioned information available in a company's proxy statement or other public filings with the SEC. The Board could recommend to the SEC that it consider rulemaking in this area to provide for inclusion of this information in a part of the proxy statement (such as the audit committee report) that would not be incorporated by reference into any Securities Act registration statements. If this information is not incorporated by reference, then no consent under sections 7 or 11 would be required. Assuming, as the Board suggests, that engagement partner and Audit Participant information would be relevant to a stockholder's decision whether to ratify auditor appointments or otherwise useful to users, we believe this approach is preferable to the Board's unilaterally adopting new disclosure requirements which are more appropriately the province of the SEC. In addition, the information contained in the proxy would be equally as accessible to users as information contained in the audit report. Placing this disclosure in the proxy statement or other filing could give companies the flexibility to provide more context about the roles of the engagement partner and Audit Participants as it relates to auditor oversight.

We also renew our recommendation that any reporting regarding named Audit Participants should also include explanatory language to the effect that the named Audit Participants are separate legal entities and, if they are members of the same network as the principal auditor, that the network firms follow a common audit methodology and consistent quality controls.

Potential Liability For Engagement Partners and Audit Participants Named In The Audit Report

Engagement partners and Audit Participants have a legitimate concern that being named in the audit report could expose them to incremental private civil litigation and personal liability. We do not believe the Board has adequately considered these risks in advancing its proposed standards.

Securities Act Section 11

In prior consideration of this subject, the Board consistently emphasized that its intent was not to increase the liability of engagement partners.[3] In the Proposing Release, however, the Board assumes that naming the engagement partner and Audit Participants in the audit report will impose statutory liability on them under section 11 of the Securities Act, liability that they do not currently possess.[4] A claim under section 11 can be particularly potent, because purchasers of securities under a registration statement can recover from named experts for material misstatements or omissions in their reports, without the same requirement to prove scienter and causation that apply to other claims under the securities laws. While section 11 provides experts with a "reasonable investigation" defense, it places the burden of proof on the defendants.[5] We believe the Board unduly minimizes the uncertainties and costs of such liability. Private securities litigation is inherently complex, and the Board should be wary of basing its determinations on untested generalizations about the potential impact of imposing new potential securities liability.

The Board offers various rationales why the liability risk is not significant. The Board suggests that an engagement partner's liability under section 11 would be "coextensive" with that of the firm. Even if that is the case, it is difficult to predict how litigation naming both an accounting firm and the engagement partner will play out in practice, as there are no precedents for such a situation. It is at least conceivable, for example, that the firm's and the engagement partner's legal or factual positions may differ as to the "reasonable investigation" defense under section 11(b)(3) of the Securities Act. Similarly, the Board's apparent assumption that the engagement partner will not face personal financial exposure for a section 11 claim is questionable. As the Board itself notes, there are serious questions as to whether one party can indemnify another for securities laws violations.[6] Moreover, there may be circumstances in which a firm cannot indemnify the individual (as in the case of insolvency) or may elect not to do so. Finally, the Board

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3 2011 Release, at 14; *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, PCAOB Release No. 2009-05, at 11 (July 28, 2009).

4 The Board does not consider whether there are arguments that consents would not be required even if the engagement partner or Audit Participants are named in the audit report. In any event, there is no assurance that the SEC or issuers would accept those arguments and conclude that consents are not required.

5 Section 11(b)(3)(B) provides that an expert who sustains the burden of proof shall not be liable with respect to his report if, at the time the registration statement became effective, "he had, after reasonable investigation, reasonable ground to believe, and did believe, . . . that the statements therein were true and that there was no omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading."

6 Proposing Release, at 22n.50.

points to a study suggesting that section 11 cases against accounting firms are infrequent. Even if so, that provides little comfort to the individual who may become a defendant in such a case.

We also believe the Board understates the additional costs and other potential impacts that may result if it imposes section 11 liability on individual engagement partners. An individual named in the lawsuit may require separate counsel if his or her interests diverge from that of the firm and potential inter-defendant issues could complicate the defense of the litigation and drive up costs for all parties. Perhaps most importantly, we suggest the Board has not fully considered the significant personal and professional impact on an individual of being named as a defendant in a major litigation. No person wants to be named personally in a lawsuit. It could affect the individual's ability to obtain loans, impede the individual's ability to seek new employment, and have other reputational impacts in the individual's community. In addition, being named in a civil suit may also require notification to state accounting licensing authorities, which could trigger an investigation. All of these consequences can result even where there is no finding of liability.

As with naming engagement partners, the Board assumes that Audit Participants that are named in the audit report would be subject to liability under section 11. We believe the same considerations that weigh against imposing section 11 liability on engagement partners apply with equal, if not greater, force to named Audit Participants. Audit Participants that do not issue audit reports themselves do not currently face any material risk of section 11 liability, because the principal auditor takes responsibility for their work and the Audit Participants are not identified in a public document. If they become parties to section 11 litigation because they are named in an audit report, they will incur costs in defending this litigation, which can include counsel fees, discovery costs and management time and distraction. These costs could be substantial. And regardless of the liability risks, plaintiffs may opportunistically name Audit Participants as defendants in a section 11 case in order to gain advantage in the litigation or settlement.

Securities Exchange Act Section 10(b) and Rule 10b-5

The Board concedes in the Proposing Release that it "cannot conclude with certainty whether its approach might increase liability under Section 10(b)."[7] Yet it goes on to state that it believes "the better argument is that liability should not be increased under the *Janus* decision."[8] The Board's views, of course, are not binding on any court, and may provide little comfort to an engagement partner who will confront potential personal liability as a result of the new standards. In any event, we do not think the Board has adequately considered the current state of the law in this area.

We noted in the PwC 2012 Letter that uncertainty existed as to whether, in the wake of *Janus*, an individual can be deemed the maker of a statement that is issued by an entity. During the intervening two years this uncertainty has not been resolved. To the contrary, recent commentators have described the "ultimate authority" standard from *Janus* as a conundrum that "has played out with mixed results in cases involving allegations against corporate executives" and referred to cases subsequent to *Janus* as creating "a dichotomy of jurisprudence."[9] The Southern District of New York has also recognized that the issue of individual responsibility for corporate statements under *Janus* is "unsettled" in that district.[10]

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7 Proposing Release, at 25.

8 *Id.* (discussing *Janus Capital Group, Inc. v. First Derivative Traders*, 131 S. Ct. 2296 (2011)).

9 Max Stendahl, *Attorneys See Clouded Legacy for High Court's Janus Ruling*, LAW360, http://www.law360.com/articles/447005/attys-see-clouded-legacy-for-high-court-s-janus-ruling (June 4, 2013, 7:27

Case law from as recently as October 2013 shows that courts remain willing to deem a corporate executive to be the "maker" of statements within a company's disclosure document. In the civil litigation context, lower courts have continued to hold that individual corporate officers can be subject to Rule 10b-5 liability because they may have exercised "ultimate authority" over public statements issued by the company.[11] This trend has also continued in SEC enforcement actions.[12] A plaintiff could assert that the same principle should be applied to the engagement partner in an audit, and naming that person in the statement itself could be cited to support that allegation.

Given this continuing environment of uncertainty involving primary individual liability under Rule 10b-5, even after Janus, the possibility cannot be so easily dismissed that identifying the engagement partner in the audit report would be cited by plaintiffs, or potentially the SEC, as a basis for asserting that the engagement partner exercised "ultimate authority" over the report and therefore is liable for its contents. While we do not believe that these would ultimately be winning arguments, it may be some time before the issue is resolved in the courts.

It is also conceivable that plaintiffs may attempt to name accounting firms that participate in audits as parties in litigation based on a faulty audit report. [13] While we believe that the courts will ultimately reject Rule 10b-5 claims against Audit Participants, in the meantime, plaintiffs may nonetheless see a tactical advantage in naming them as defendants.

Naming the engagement partner or Audit Participants in the audit report also increases the potential that they could be individually named in state causes of action. While we believe that in the long run such claims are unlikely to prevail as a matter of law, it may be some time before that question is resolved in the courts.

Practical Impact of Consent Requirement

The new consent requirement for engagement partners and named Audit Participants could also create practical and logistical problems. Filing a consent may not be a one-time-only event. Even after the audit report is issued and the annual report on Form 10-K containing the report is filed, an issuer will require new consents from the named engagement partner and Audit Participants in order to include the report in subsequent, newly-filed registration statements and amendments. These consents will be required to be

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PM ET); Andrew Gillman, *Scope of Primary Liability Under Section 10(b) of the Exchange Act and SEC Rule 10b-5 Following Janus Capital Group*, 40 No. 3 SECURITIES REGULATION LAW JOURNAL 269, 283 (Fall 2012).

10 *See City of Austin Police Retirement System v. Kinross Gold Corp.*, No. 12 Civ. 1203 (PAE), 2013 U.S. Dist. LEXIS 79892, at *14 n.1 (S.D.N.Y. June 6, 2013).

11 *See In re Pfizer Inc. Securities Litigation*, 936 F. Supp. 2d 252, 269 (S.D.N.Y. 2013); *In re Stillwater Capital Partners Inc. Litigation*, 853 F. Supp. 2d 441, 460 (S.D.N.Y. 2012).

12 *See SEC v. Levin*, No. 12-21917-CIV, 2013 WL 5588224, at *14 (S.D. Fla. Oct. 10, 2013) ("[A] person makes a statement for purposes of Rule 10b-5 when that person *has control* over the content, regardless of whether the person actually drafts the content.") (emphasis in original); *see also SEC v. Daifotis*, 874 F.Supp.2d 870, 881 (N.D. Cal. 2012).

13 *See Munoz v. China Expert Tech., Inc.*, No. 07 Civ. 10531, 2011 U.S. Dist. LEXIS 128539 at *4 (S.D.N.Y. Nov. 4, 2011) (genuine issue of fact exists as to whether US affiliate of Hong Kong accounting firm "explicitly or implicitly controlled sufficiently—and thus 'made'" the statements in the Hong Kong firm's audit report, by virtue, among other things of US firm's managing director giving final approval of the audit opinions prior to their being signed, and his being tasked with reviewing the entire filing for compliance).

dated concurrently with the relevant filings. This requirement will continue for at least a year, until the next audit report is issued.

The consent requirement would present problems with respect to partners who are no longer associated with the firm. It may be difficult, time-consuming or impossible to obtain consents from partners who are no longer associated with the firm, who are deceased, incapacitated or not easily reachable or who, being no longer associated with the firm, decline to provide a consent. If a consent is unable to be provided, the SEC may reject the filing as incomplete, or the issuer may have to request a waiver, which again could be time-consuming and result in additional expense.

In any case, providing consents will not be automatic. One question will be whether a former engagement partner who is asked to consent to use of his name will have to comply with the requirements of AU 711, *Filings Under Federal Securities Statutes* ("AU 711"). While the standard does not specifically address the responsibilities of named engagement partners, at a minimum the partner may need to follow them in order to ensure that he or she receives the benefit of the reasonable investigation defense of section 11(b)(3). That, in turn, will raise questions about how and under what conditions a former partner of the firm can be given access to confidential client information in order to perform the necessary procedures.

Even as to engagement partners who remain associated with the firm, there may be complications. Similarly to a partner who has left the firm, a partner who has rotated off the engagement, as required under the SEC independence rules, may need to follow the requirements of AU 711 in order to provide a consent and receive the benefit of the reasonable investigation defense of section 11(b)(3). We believe this will not have an impact on the firm's independence or commencement of the partner's time out period, but there is uncertainty as this is not addressed in either the SEC or PCAOB's rules.

The Board rejects the proposition that Audit Participants that are named in the audit report may find it necessary to perform additional procedures or may charge more to compensate for accepting the additional risk of liability under US securities law. To the contrary, we believe that, at a minimum, the requirements of AU 711 may require the named Audit Participants to perform additional procedures when they are asked to consent to use of their work in a subsequent registration statement. More generally, we believe that foreign accounting firms may, by virtue of being named in the audit report, consider themselves to be associated with the report. They may feel it necessary to undertake a wider range of procedures, including reviewing the complete financial statements and SEC filing in which the statements are contained, in order to consider whether other statements in the filings are consistent with the work they performed on the audit or whether other parts of the filing raise association risks. This concern is heightened because the Audit Participant will not provide a separate report and it will not be clear from the face of the audit report what parts of the audit are attributable to the Audit Participant. Performance of these procedures will result in unnecessary costs, as the Audit Participant will be performing procedures and inquiring in areas they were not involved in during the audit.

As with engagement partners, we believe that the process for obtaining consents from Audit Participants may also present logistical problems. As noted above, new consents will be required from all named Audit Participants for every registration statement and amendment after the initial filing of the audit report. The need to obtain consents from numerous non-US firms—and for those firms to perform the necessary procedures in order to be able to issue the consents—could lead to delays in completing the offerings and additional costs.

"Off-Shoring"

As with its 2011 proposal, the Board's current proposal would not require reporting with respect to portions of the audit that are performed by offices of the same registered public accounting firm, even though they are located in a country different than the country where the firm is headquartered. The Board rejected comments on the prior proposal, including ours, recommending that this exclusion should also apply where the same types of off-shored activities are conducted by separately-organized legal entities that are wholly-or majority-owned subsidiaries of the firm or by joint ventures with other firms in their networks. As we pointed out previously, the personnel provided by the subsidiaries or joint ventures perform the audit related tasks under the direction and control of the engagement team that is performing the audit. Because the personnel are acting, in effect, as part of the principal auditor engagement team, we believe it is unnecessary to separately break out the entities that perform the work. These functions differ fundamentally from that performed by other independent accounting firms, who agree with the principal auditor to perform substantive audit procedures with respect to a portion of the entire enterprise being audited.

We fail to see any principled basis for distinguishing between work performed by "offices" of the same legal entity and the work performed by subsidiaries or joint ventures of the type described above. Reporting about the portions of work that are performed off-shore will not provide any meaningful information about the entities that are responsible for those portions of the audit. Most likely, it will only provide a basis for commentary about off-shored activities that have no relevance to investor protection or audit performance. We believe that reporting should not be required for off-shoring arrangements of this type.

CONCLUSION

As discussed above, we support the general objective of providing meaningful information to users of the financial statements. However, we have concerns whether the proposals will serve that objective or enhance audit quality. Nevertheless, to be responsive to the requests of users we are supportive of providing the engagement partner and Audit Participants reporting in a place other than the audit report itself, but, to alleviate concerns about who is responsible for issuing the audit report, we also believe that the name of a member or members of firm leadership should also be included. The alternatives outlined above will address many of our concerns while still providing additional information about the audit to users.

* * * * *

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact Michael J. Gallagher (646-471-6331) or Marc Panucci (973-236-4885) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

From: Carolyn Ridpath
To: Comments
Subject: DOC 029
Date: Friday, December 06, 2013 12:00:17 PM

I read the article in the Wall Street Journal re the proposed changes.

I have been a CPA since 1967 and it has always amazed me that there is no ownership of the audit report. The staff preparing the report hide behind the signature that only shows the name of the accounting firm. There is no ownership.

I absolutely think that the partner –in-charge should sign. Further, the other accounting firms involved in the audit should be named. The country is trying to move toward more transparency and responsibility and the profession should, too.

Carolyn J. Ridpath
Compliance Specialist
Vermont Economic Development Authority
58 East State Street, Suite 5
Montpelier, VT 05603-3044
Direct Line: (802)828-5464

From: Slrosenfieldcpa@aol.com
To: Comments
Subject: Requirement to name Audit partner
Date: Thursday, January 30, 2014 6:14:16 PM

I believe this to be a proposal that will unnecessarily dilute a stakeholder's focus.

Instead of looking to push a stakeholder's focus on responsibility down to lower levels, you should, instead, be looking to make multi-national **audit firms** accept their full responsibility for work done by any of their people anywhere in the world.

If stakeholders hire PWC to do an audit, they are not hiring a partner in the Calcutta office. They are hiring the named firm.

There should only be a few firms registered with the PCAOB- not thousands.

The Calcutta office of PWC should be considered part of PWC- **not a separate entity.**

Sherman L. Rosenfield, CPA
(561) 739-8282

From: Nick Sagona
To: Comments
Subject: PCAOB extends comment period on engagement partner ID proposal
Date: Monday, February 03, 2014 11:01:04 AM

Dear Sir or MS:

I retired last August after 44 years in public accounting, all of which were devoted to audit. Although our firm did not audit public companies, it did audit regulated companies, banks, savings and loans and casualty insurance companies.

The general public, which comprises a significant percentage of the investors in the stock of issuers, does not have a firm grasp on the definition of an audit; the requirements that the audit standards impose on the auditor, or the limited, although very high, yet stopping short of absolute, level of assurance provided by the auditor to users of the financial statements upon which the auditor has opined.

As such, I believe imposing this requirement to disclose the identity of certain individuals serving on the audit will place at risk the personal safety of those audit personnel so named. In the violent times in which we now live, it is highly feasible that angry investors who are dissatisfied with the performance of the stock of a company in which they have invested and where that company has received an unqualified opinion on its financial statements could seek to do harm to those audit personnel named in the audit report.

Currently, if there is an audit bust involving the audit of an issuer’s financial statements, it is certain those individuals responsible will be held accountable by the professional oversight organizations to which they are regulated as well as our civil and criminal, if applicable, justice systems. It appears this proposal does not increase the likelihood of negligent auditors being subject to greater accountability but does increase the likelihood of them becoming targets of violence.

Thank you for providing this opportunity to respond to this proposal

Sincerely,

Nick O. Sagona, Jr.

Sinclair Capital LLC
924 West End Avenue – T4
New York, N.Y. 10025

March 14, 2014

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 29

As someone who has been an institutional investor for more than a quarter century, I write in support of the concepts contained in PCAOB Rulemaking Docket No. 29; specifically that the identity of the engagement partner and the identity of other participants in a public company audit be made public.

By way of background, I have directly invested or overseen more than $100 billion in institutional investments in my career. I have served as Deputy Comptroller for New York City, in which position I was both the investment advisor for and a trustee on the various New York City pension funds totaling more than $80 billion at the time; served as chair of Sears Canada's investment committee overseeing the investments of that company's multi-billion pension fund; served on approximately five investment committees overseeing not-for-profit endowment/pension or other funds totaling more than $100 million; and currently serve as a trustee for a family of mutual funds and insurance trusts with aggregate assets of more than $8 billion. I have also been active in various industry groups, including co-founding the International Corporate Governance Network (ICGN), and have been honored by various industry groups, such as the National Association of Corporate Directors and the ICGN. Finally, I have consulted to such major investors as Legg Mason, Nomura and SBLI USA.

Simply put, I think the proposed requirements can increase accountability and audit quality.

I believe this for two reasons. First, as others have noted, it is generally agreed that personally identifying your work correlates to increased pride and craftsmanship. While the primary responsibility for the quality of the audit will and should remain with the audit firm, personally identification should have a salutary effect on the care with which the engagement partner conducts the audit. There is a reason that most great craftsmen – in virtually every genre – sign their work. It reflects pride. Proactively mandating that identification is a well-established method to encourage that pride. That is the reason the Sarbanes Oxley legislation requires identification of senior corporate officials on issuers' financial statements. It certainly seems proportionate to require that the individuals examining those accounts also be identified.

The second reason is that information is the lifeblood of the marketplace. The audit firms, I believe, overwhelmingly take their obligation for quality control seriously. However, it is beyond argument that the individual engagement partner affects audit quality. Investors, who are the consumers of the financial statements and audit reports, have an interest in the identity of an engagement partner for a multiplicity of reasons. While most people focus on the negative, such as identifying an engagement partner who has overseen flawed audits in the past, or for independence reasons (Section 203 of the Sarbanes Oxley act requires individual auditor rotation after five years), I think it equally likely that investors would be interested in the positive. For example, when a company changes audit firms, there is a fear that the change has been made because the issuer is shopping for a low price with little regard for quality. Or, worse, that the issuer has had friction with the previous audit firm and is looking for a more pliable firm that fulfils its audit mandate with less professional skepticism than the previous incumbent. It would be nice for investors to be able to look at the new engagement partner and note that he/she has a great deal of expertise in technology or automotive or finance or whatever the main business is of the issuer. That would be reassuring to the market, and show that the issuer has made the change for positive, rather than negative, reasons.

Finally, as to the identification of other audit participants, that seems intuitively obvious. If audit firm "x" signs the audit opinion, we investors assume that audit firm "x" has done the work. But, as the Reproposal makes clear, some of the work may be done by either affiliated or unaffiliated entities. That reality, particularly for multinational companies, means American investors may be dependent upon unidentified other audit participants for assurance. And, given the fact that problems in other jurisdictions may affect American companies and their investors (e.g. this week's revelations about Citibank's Mexican operations), it seems only right that we know whether or not other firms have been involved, so that we can judge their qualifications and reputations. The increasing global nature of business and capital markets makes this ever more important.

I thank you for this opportunity to submit my comments.

Sincerely,

Jon Lukomnik
Managing Partner

SOCIETY
of Corporate Secretaries
& Governance Professionals

March 12, 2014

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Release (No. 2013-009) on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (PCAOB Rulemaking Docket Matter No. 029)

Ladies and Gentlemen:

The Society of Corporate Secretaries and Governance Professionals appreciates the opportunity to provide comments on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") reproposed auditing standards, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (the "Reproposal"), issued on December 4, 2013.

Founded in 1946, the Society is a professional membership association of more than 3,200 corporate and assistant secretaries, in-house counsel, outside counsel and other governance professionals who serve approximately 1,600 entities, including 1,200 public companies of almost every size and industry. Society members are responsible for supporting the work of corporate boards of directors and the executive managements of their companies on corporate governance and disclosure matters.

General Comment

The Reproposal seeks to require audit firms to disclose in their auditor's reports : (1) the name of the engagement partner on the most recent audit and (2) the names, locations, and extent of participation of other participants in the audit ("Audit Participants"). The Board states such disclosure "would add to the mix of information that investors and other financial statement users have about public companies, which they would find useful." [1]

The Society appreciates the PCAOB's efforts to improve the transparency of public company audits in its mission to "further the public interest in the preparation of 'informative, accurate, and independent audit reports.'"[2] However, with respect to the Reproposal, the Society believes that the information sought is of little use to investors, particularly when the costs to companies are considered. The Society concurs with many other commenters on the Reproposal that the PCAOB should more closely examine the significant practical issues and potential for unintended adverse consequences associated with the proposed disclosure. If, after consideration of the comment letters and further examination of the issues raised in those letters, the PCAOB nevertheless determines to propose to

[1] Id. at page 3.
[2] PCAOB Release No. 2013-009, page 2.

require the publication of such information, the Society requests that the PCAOB fully consider alternative means for the publication of this information, including -- as many commenters have suggested -- by establishing a new PCAOB reporting mechanism for such information, either in existing PCAOB Form 2 or more frequent PCAOB reporting forms designed specifically for this purpose.

The Society concurs in large part with the views expressed in numerous letters submitted to the PCAOB regarding the Reproposal by organizations that represent the interests of public companies and public company boards of directors, audit committees, auditing firms and investors. Rather than restate at length the viewpoints discussed in those and numerous other letters making similar comments, this letter outlines the overarching points of concern that the Society has with the Reproposal, as well as alternatives that we believe can mitigate some of those concerns.

<u>The PCAOB Has Not Demonstrated the Utility of the Information Sought Under the Reproposal</u>

In response to the PCAOB's request for comment on the usefulness of the proposed information, the Society believes that the information sought under the Reproposal will have little usefulness for investors generally. In fact, as explained in more detail below, the Society is concerned that the proposed information would likely mislead or confuse investors about the engagement partner's role in the audit process and, therefore, about the audit process itself. The Society recognizes that certain other regulatory bodies, as well as certain investors generally not identified in the PCAOB's Reproposal, have suggested that the information might be helpful. But we believe that the PCAOB should not base its Reproposal on opaque opinions regarding investor interest in the information. We note the PCAOB's assertions that it has gathered such evidence, such as that "[f]rom its Investor Advisory Group ("IAG") and Standing Advisory Group ("SAG"), as well as from meetings with investors and other financial statement users, . . . that many people, particularly investors, want more information about the independent audit, such as information about those who conduct it." The Reproposal does not, however, disclose the identity of the investors and other financial statements users or explain the number or nature of the "many people, particularly investors" who want the proposed information. The Society believes that the PCAOB should inform the public about the number and nature of these commenters so that the sources that help to form the basis of the Reproposal are known.[3]

This is particularly true in light of the view expressed by many commenters, which the Society shares, that any benefit resulting from publication of the information would be significantly outweighed by the associated burdens and costs to provide the information. This is particularly so when one considers the potential effect that companies with financial, regulatory, legal or other issues would have in terms of fewer engagement partner candidates and, as a result of this competitive disadvantage, be subject to higher audit fees. These and other issues are addressed more fully below.

<u>The PCAOB Minimizes Implications for Increased Securities Act Liability</u>

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[3] In this regard, the Society notes the December 4, 2013 statement of PCAOB Board Member Jeanette M. Franzel that: "The key questions surrounding this proposal are whether and how additional transparency about the identities of engagement partners and other participants in audits would solve a particular need or problem, serve appropriate policy objectives, achieve certain benefits, and impose compliance or other costs. Frankly, it is surprising that we are at this point in the standard-setting process with such basic questions still unanswered."

The Society is concerned that the PCAOB has unduly minimized the significant implications associated with its assumption that engagement partners and Audit Participants would be subject to liability under Securities Act Section 11 and could be subject to increased liability under Exchange Act Section 10(b) and Rule 10b-5 as a result of needing to consent to the inclusion of their name in the auditor's report.

The Society believes that the PCAOB's mission is too significant to base proposed standards or requirements on assumptions and beliefs.[4] The Society strongly encourages the PCAOB to carefully explore and consider the unintended consequences and costs to multiple parties that would likely result from the application of liability under Securities Act Section 11 or Exchange Act Section 10(b) and Rule 10b-1 to engagement partners and Audit Participants, and the likely impact on audit costs to registrants, prior to moving forward with the Reproposal.

<u>The PCAOB Should Consider the Increased Costs and Practical Implications of Obtaining Consents For Registration Statements</u>

The Society is concerned that the PCAOB has not fully considered the practical, logistical and timing issues and corresponding increased costs that would result from the requirement that engagement partners and Audit Participants provide their consent to be named in an auditor's report as a result of the Reproposal. These issues and costs, which would be even more significant and complicated when a company is seeking to file a Securities Act registration statement subsequent to the date of a recent auditor's report, include:

- the challenge of obtaining in a timely fashion consents from engagement partners that are unavailable for any reason, including but not limited to resignation or retirement from the audit firm, or because they have rotated off the engagement;

- the challenges of obtaining in a timely fashion consents from numerous non-U.S. Audit Participants in different jurisdictions, each of which may have different procedures and legal requirements associated with giving consent for an SEC filing; and

- the potential that underwriters of a registered offering may require comfort letters from each Audit Participant, which would create additional significant timing and logistical issues and result in increased costs to the public company.

The Society believes that the PCAOB must more fully recognize that the assumed consent requirement has the significant potential of disrupting the timing of securities offerings. Timing delays in any securities offering can result in missed opportunities and significant costs for companies and their security holders. The Society believes that these costs ultimately would be borne by the very investors that the PCAOB seeks to assist under the Reproposal. Accordingly, the Society suggests that the PCAOB

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[4] The Society notes the December 4, 2013 statement of PCAOB Board Member Jay D. Hanson on the Reproposal that: "I do have strong reservations about today's proposal and take exception to a number of generalizations in the release about what the Board believes." As to this and the prior footnote in this letter, the Society is fully aware that in many instances the board or other governing body of a regulatory body seeking to implement regulations or standards will have dissenting members. However, where strong dissent bears directly on the foundation for a proposal, a regulatory body should not act upon it until the cause for such dissent is addressed or mitigated.

directly address these specific issues before moving forward with the Reproposal and, at a minimum, consider alternative vehicles for the publication of the information sought by the Reproposal.

Naming the Engagement Partner Could Confuse Investors By Overemphasizing the Role

The Society concurs with the views expressed by numerous commenters on the Reproposal that naming the engagement partner and Audit Participants as defined in the Reproposal can have the effect of misleading or confusing investors rather than providing them with useful information. As the PCAOB is well aware, the audit of a public company involves extensive work by multiple parties, including those within the audit firm itself, and the public company's management and financial reporting team. The audit itself is also the product of the audit firm's quality control standards. The identity of the engagement partner could have the unintended consequence of significantly overemphasizing the role of that individual in the execution and results of the audit. Similarly, Audit Participants, as the PCAOB is well aware, perform under the direction of the principal audit firm. Requiring the name of an Audit Participant based only on hours worked on the audit could have the unintended consequence of significantly overemphasizing the role of a particular Audit Participant.

Identification Will Chill Audit Firm Partners Willing to be Named and Increase Costs

The Society agrees with concerns that a requirement to identify public company engagement partners will have a chilling effect on the willingness of audit firm partners to serve as engagement partners for public companies facing business, financial, legal, or regulatory challenges that may result in stock price declines and resulting shareholder litigation. This is due to the potential liability noted above as well as concerns about professional and personal reputational risk. If this is the case, such companies would therefore potentially face increased audit costs and fewer audit firm and engagement partner candidates. The Society also believes it is possible that a small group of engagement partners who are willing to be named, and who have not been associated with a company that has restated its financials, will emerge and will seek a premium for being willing to be named.

For all of the reasons stated above, the Society believes that the PCAOB should reconsider the basis for and competitive effects of the Reproposal as well as its assumptions concerning liability, all in light of the comments it receives in the comment process. If the PCAOB nevertheless decides to require publication of the information suggested in the Reproposal, the Society respectfully requests that such information not be included in any filing with the Securities and Exchange Commission.

The PCAOB Should Propose Alternative Methods of Publication of the Information

The Society concurs with numerous other commenters on the Reproposal that, if the identification of engagement partners and Audit Participants is required, the PCAOB should not require the information to be disclosed in any SEC filing.[5] Rather, the PCAOB itself should provide alternative vehicles for publication of such information, including by:

[5] In this regard, the Society calls attention to the December 4, 2013 statement of PCAOB Board Member Jay D. Hanson that: "In my view, requiring these disclosures in the audit report — as opposed to on our website in a firm's annual filing on Form 2 or another filing — involves substantial uncertainties and potentially unnecessary risks. I believe that the evidence cited in the release for the potential benefits of the disclosures is weak. And certainly the incremental benefit, if any, from including the disclosure in the audit report rather than in another filing is minimal, at best."

- providing for such information in PCAOB Form 2, which could be amended more frequently than annually in order to provide investors with more timely information; or
- creating a new PCAOB form for such information, which could be designed in an investor-friendly way; and
- allowing the information to be posted on the PCAOB website.

The Threshold for Defining Audit Participants Should be Modified

The Society also requests that the PCAOB re-examine the threshold for defining Audit Participants. The Society believes that the naming of an Audit Participant, if required, should be based on substantive and qualitative factors using principles to be set forth by the PCAOB rather than on simple hours spent that may not appropriately reflect the qualitative contribution of the Audit Participant.

The Society commends the PCAOB for extending the comment period on the Reproposal and appreciates this opportunity to share our views with you. We would be happy to provide you with further information to the extent you would find it helpful.

Respectfully submitted,

Darla C. Stuckey
Senior Vice President – Policy and Advocacy

State of Connecticut

DENISE L. NAPPIER
TREASURER

Hartford

March17, 2014

Via email to comments@pcaobus.org

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB No. 2013-009, Rulemaking Docket Matter No. 29

Dear Sir/Madam,

I write to express strong support for the Public Company Accounting Oversight Board's (the "Board's") Release No. 2013-009, "Improving the Transparency of Audits: Proposed Amendments to PCAOB Accounting Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit." As the principal fiduciary of the $28 billion Connecticut Retirement Plans and Trust Funds, I have long supported reforms promoting transparency in the audit process. The measures proposed in the Release will provide investors with valuable information and foster greater professional accountability on the part of auditors, thereby improving audit quality.

Attached are my comments. I appreciate the opportunity to express my views to the Board on this proposal. Please feel free to contact Assistant Treasurer for Policy Francis Byrd should you have any questions. He can be reached at (860) 702-3292 or francis.byrd@ct.gov.

Sincerely,

Denise L. Nappier
State Treasurer

Attachment

Comments of Connecticut State Treasurer Denise L. Nappier on Improving the Transparency of Audits (Release No. 2013-009)

In recent years, the standing of external auditors has declined due to high-profile audit failures and certain improprieties involving auditors. Of course, external auditors continue to play a critical role in the U.S. capital markets, ensuring access to true and accurate information about companies to the public securities markets. The Board's proposal will assist investors by disclosing information about the role of particular persons who are involved in a company's audit process—most importantly, the engagement partner. Under the proposal, the engagement partner's identity would be disclosed in a company's annual audit report. Greater communication concerning the audit process will help market participants make better investment and voting decisions about public companies. I also believe that audit quality will improve as individual partners are identified with audits.

I strongly support the engagement partner disclosure proposal for several reasons, and do not believe that concerns raised by the accounting profession are well founded. Requiring the engagement partner to sign the audit report will not lead to increased liability and confuse investors. Instead, it will provide greater transparency that will protect the company and give relevant information to investors.

First, although the audit firm signs the audit report, the work of the audit team is overseen by a person, the engagement partner. As the Board has noted in the Release, the quality of that oversight varies among engagement partners. A recent joint publication by several organizations, including the National Association of Corporate Directors and the Center for Audit Quality -- aimed at preparing audit committee members to evaluate the external auditor - stated that: "audit quality largely depends on the individuals who conduct the audit."[1] The organizations suggest that audit committee members should assess the engagement partner's knowledge and skills, and his or her interactions with the audit committee.[2]

Identification of the engagement partner would be useful to investors when making voting decisions. At most U.S. companies, shareholders are asked to ratify the external auditor but are given very little information with which to evaluate the auditor's performance. Disclosure of the engagement partner's name will allow shareholders to determine whether that person has been disciplined by the Board or other regulators, as well as any history of litigation against the engagement partner.

Over time, disclosure of engagement partners will enable third-party vendors to assemble datasets that will permit investors to review an engagement partner's history and identify any items of concern. Such data will lead to better-informed decision making on auditor

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1 ("Audit Committee Essentials: The Annual Auditor Assessment," at 2 (2013) (available at http://www.thecaq.org/docs/reports-and-publications/annualauditorevaluationtoolinteractive.pdf?sfvrsn=2)

2 Id. at 2-3

ratification votes. Collection of similar data regarding executive compensation and past and present director service has allowed investors to cast more informed and meaningful votes on compensation-related proposals and director elections.

Some have raised a concern that investors will fall prey to simplistic ratings of engagement partners. But investors are accustomed to weighing a variety of factors when assessing performance, following up on red flags and considering problems in the overall context. This approach can be seen in the careful analysis investors and proxy advisors do when they are asked to withhold support from directors standing for election. There is no reason to believe they will do otherwise with respect to auditors.

Second, the trend globally is moving toward disclosure of the audit engagement partner. For example, the European Union's Eighth Company Law Directive states that the statutory auditor(s) must sign the audit report. The U.S. markets should provide similar transparency to avoid being out of step with global investors' expectations.

Finally, I believe that identifying individual engagement partners with audits will improve audit quality by fostering greater accountability. I agree with the Council of Institutional Investors, which stated in a comment on the Board's 2009 concept release on requiring the engagement partner to sign the audit report: "[E]nhanced focus on the performance of the lead auditor will motivate audit firms to strengthen the quality, expertise and oversight of their engagement partners."
(http://www.cii.org/files/issues_and_advocacy/correspondence/2012/01_05_12_cii%20letter%20to%20pcaob%20audit%20transparency.pdf)

I also support the proposal set forth in the Release to require disclosure of other persons and firms, not employed by the auditor, that participate in the audit. Information about the extent to which the auditor actually performs the audit work, and the identity of any person or firm that performs a significant proportion (5% or more) of the audit work, is useful in deciding how to vote on audit ratification proposals. Such other persons or firms may have been disciplined by the Board or other regulators, may not be subject to inspection by the Board, or may be domiciled in jurisdictions with different legal requirements related to the audit. All of these are factors investors may wish to consider in evaluating the external auditor's performance.

Texas Society of
Certified Public Accountants

February 3, 2014

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: Proposed Auditing Standards: *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters. The views expressed herein are written on behalf of the PSC, which has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

In our discussion of the above referenced exposure draft (ED), we considered each of the 25 questions posed by the Board as we did when we responded to the original version of this ED. Our response to each question is indicated in the body of our letter. However, prior to sharing our answers to the questions, we feel compelled to reiterate our general lack of support for this proposed amendment to PCAOB auditing standards.

In our opinion, this reproposed version of the original ED continues to propose guidance that serves absolutely no useful purpose and at best subjects our profession to potential liability and abuse that is baseless and irrelevant. This attempt at promoting a greater degree of transparency related to the attestation function will only result in an escalation of the misconceptions that surround the role of those who are responsible for performing the attest function. Nothing in the ED enhances the performance of the attest function or the understanding of that function by those who rely on the function and the information it generates.

The guidance in this ED tends to cast doubt on the integrity of those who perform the attest function. The call for personal identification of those responsible for an attest engagement implies that users or other interested parties are unaware of where the final output of an attest engagement comes from or whether the people performing the engagement were competent to do so. The fact that we currently identify the firm responsible for the engagement and the date of its performance seems to be all any interested party would need to know. If a greater amount of information about the specific identity of those involved in the process is really necessary, because of some relevant concern, we believe they would be easy to identify.

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We believe these proposed auditing standards contain numerous flaws in both the basis for their issuance and the guidance they propose. The justification for this exposure document seems to come from the views of the Council of Institutional Investors and inconclusive research provided by the academic community. The focus of the document seems to be on rectifying the inadequacies of those in charge of audit engagements by identifying them and publicizing the perception of their inappropriate performance. We believe this is a very poor basis for the development of an auditing standard!

In our letter responding to the 2011 version of this ED, we pointed out our belief that the many safeguards that are in place in our profession to address the issues raised in this ED seem to be adequate. We have established Codes of Professional Conduct for CPAs at both the national and state levels. We have peer review programs that are designed to identify the sub-standard performance in attestation engagements and implement steps designed to rectify such deficiencies. We have professional standards committees at both the national and state levels that are focused on ethics and the ethical responsibilities of practitioners. Public accounting firms are required to develop quality control policies and procedures to which the firm's professional staff is required to comply. These firms are required to design these standards to "promote an internal culture based on the recognition that quality is essential in performing engagements and should establish policies and procedures to support that culture. Such policies and procedures should require the firm's leadership to assume ultimate responsibility for the firm's system of quality control." All of these efforts are designed to monitor performance and head off the issuance of unreliable information and the incompetent performance of professional engagements.

Once again, the big question we still have after reading and analyzing this reproposed standard is, "Have all of those efforts failed to accomplish their objectives?" One could easily conclude upon reading this proposed standard that our profession has decided to outsource the performance and competence evaluation of individual public practitioners to investors and corporate boards. Such a decision has obvious ramifications that would invite chaos and significant legal problems.

It seems to us that having the firm as the guarantor of the competence with which an engagement is performed would be far more valuable to investors and boards than the name of an individual auditor. Also, the proposed standard implies that the signature of an individual auditor will make the firm more responsible. We strongly believe that the signature of the **firm** makes the **firm** as well as **the individuals who make up that firm** more responsible!

Question 1: Would the proposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

We do not believe the requirement to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users a higher level of assurance. If anything, this information may lead to misleading information that would blur the line between management's responsibility for the financial statements and the auditor's responsibility for the audit.

We also feel that information about other participants in the audit clouds the issue of who is responsible for the final opinion on the financial statements as a whole. If a firm is not using qualified other participants, it should impact the firm's inspections and continued registration, but is not a necessary disclosure in the audit report.

Question 2: Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

The name of the audit partner and whether the firm will be using other participants is currently included in the engagement letter. If shareholders are interested in that information, it could be disclosed to them when they are making their decision whether to ratify the auditor, and not as a part of the audit report. Disclosure in the audit report only tells who was responsible for the audit that was completed, not the upcoming audit. As such, we do not see how this could be useful to the shareholders in ratifying the upcoming choice of firms.

Question 3: Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

The reproposed requirement to disclose the engagement partner's name would provide information which could be used to develop databases and other compilations containing those names. However, there are numerous issues which arise in connection with the use of, and conclusions drawn from, that information. It appears that one primary use of the engagement partner's name could well be the development of inflammatory public discussion of the engagement partner based solely on the association with a particular engagement. A cursory review of a social media site such as Twitter provides sufficient evidence of such inappropriate use of an engagement partner's name when obtained from existing indirect sources. Unregulated and largely non-challengeable use of the partner's name in print and social media could result in damage to the partner's reputation. The reality of client confidentiality rules is that a partner is unable to challenge the published results of those databases and compilations.

One obvious issue regarding conclusions drawn from the disclosure of the engagement partner's name is that those conclusions will be made based on insufficient and often misinterpreted data. For example, because a partner has a limited number of clients in a particular industry does not justify the conclusion that this partner lacks expertise in that industry. A particular focus might well be placed on partners associated with misstatements. The circumstance surrounding misstatements are generally complex, with numerous factors and persons involved. Drawing an appropriate conclusion regarding the degree of responsibility of any person associated with the restatement requires a thorough "root cause" analysis with all relevant facts and evidence available. Such an analysis would give way to speculation and conclusions based solely on presumption. The databases and compilations based on partner names and associated clients will inevitably result in erroneous conclusions based on insufficient information which cannot be challenged by the partner. Overall, we firmly believe the outputs from these databases and compilations will be misleading and provide little or no benefit to investors, audit committees or any other party coming in contact with the information.

Question 4: Over time would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

The requirement to disclose other participants involved in an audit would provide information which could be used to develop databases and other compilations of information relating to the other participants disclosed. The issues and shortcomings associated with these disclosures are similar to those identified in Question 3. The only difference may be a more pervasive impact due to the high number of parties who participate in large multi-location audits.

Question 5: Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

As previously noted, we do not believe information about the engagement partner or other participants in the audit is useful.

Question 6: Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

We are extremely hard pressed to see any relationship between disclosing the name of the engagement partner and resulting effective capital allocation. We also have a problem with any cause and effect relationship between an engagement partner's history and the reliability of a subsequent audit. This question also begs for greater clarification.

Question 7: Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

The Board suggests that the reproposed disclosure requirements would allow investors to distinguish between audits beyond the name of the accounting firms and presumably increase competition among audit firms. Yet the academic research cited dealt with audit quality and not competition among firms. We believe the reproposed disclosure requirements are directly aimed at improving accountability and audit quality and are not intended to increase competition among audit firms. We are unable to speculate about these reproposed disclosure requirements and their impact on competition. However, we do recommend that the Board conduct research on audit firm disclosure and its impact on competition.

Question 8: Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement

partner or other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

We believe the new rule would be confusing to financial statement users as it is fairly common knowledge that under current rules, mentioning "other auditors" indicates a segregation of responsibility. It is misleading when the proposed amendment only requires the disclosure of total hours, but not the actual work and level of personnel who are involved in the audit. While disclosure of the hours contributed by other participants may benefit the financial statement users, it is not as useful when the users do not know the composition of those hours from staff-level personnel to engagement partner hours. It's apparently different when 19 percent of the hours used by other participating firms is from an entry-level staff member or is from an experienced manager. However, this kind of differentiation in disclosure would be cumbersome and would fall far short of satisfying the cost/benefit analysis. Also, the fact that different firms have different staff structures makes such disclosures even more difficult and potentially more confusing. Thus, the challenges are significant and would be most difficult, if not impossible, to overcome.

Question 9: What costs could be imposed on firms, issuers, and others by the reproposed requirements to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser efforts on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

We do not believe there will be any significant direct costs associated with disclosing the name of the engagement partner in the auditor's report. However, we further believe that indirect costs will increase as firms will increase fees due to perceived increases in potential liability, which raises the cost of capital to issuers and investors.

Question 10: What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

Administrative costs would likely be minimal. The procedures firms undertake to consent to the use of the firm's opinion can, for the most part if not in their entirety, be used for the partner's consent to use his or her name in the report. It is unknown at this point how insurance and other private contracts will affect these costs. This is untested in the United States as it is not used in private or public company reports. If the Board moves forward with this proposal, we believe the Board has a responsibility to order a study into how the requirement would impact insurance premiums and claims of firms, as well as other associated costs.

Question 11: Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

We do not believe the disclosure of the engagement partner's name in the audit report or the associated consent requirement will result in any benefits. We continue to believe that the signature

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and consent of the firm makes the firm, as well as the individuals who make up the firm, responsible and no value is derived, as it relates to audit quality, by adding the engagement partner's name or consent. We don't believe the requirement, if approved by the Board, will result in any audit quality difference to EGCs as opposed to non EGCs. Firms undertake to follow the Board's auditing standards for all engagements of SEC issuers regardless of whether the issuer is an EGC or not.

Question 12: Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? Is so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

We do not believe accountability is enhanced by either disclosing the partner's name or requiring the partner's individual consent. Partners are accountable to their firms, regulators and licensing bodies, as is the firm. The firm is engaged to conduct the audit and thus has responsibilities regarding how the audit is conducted, how the firm quality control is structured, and how the audit work is documented. These efforts are subject to the review of various regulatory bodies. The firms are accountable and are subject to evaluation by the PCAOB and SEC. The notion that naming a partner in the audit report or in a consent increases accountability and impacts audit quality implies that partners lack a sense of responsibility or accountability under the current system. Partners, as well as the firms they represent, are subject to various penalties and censure by both the PCAOB and SEC (as regulators) and by shareholders and the business entities (as interested parties). Partners are aware of the environment in which they operate and the risks that are associated with that environment. We see no reason why naming them in an audit report would seem to heighten their awareness of their responsibilities.

Question 13: What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

Any additional disclosure by auditors has the potential to increase costs. The Board acknowledged the possibility that disclosing the names of other participants could increase the possibility of these participants being named in a lawsuit. Therefore, there is the likelihood that professional liability insurance might be secured by these participants. Assuming this additional coverage increases insurance premiums, these additional costs would likely be passed on in the form of increased fees. We would expect the effect on EGCs and auditors of EGCs to be the same.

Question 14: What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

If a participant provides consent to be named in the audit report, it would seem appropriate to expect that participant to request certain information from the signing auditor for the purpose of determining the auditor's ability to perform an audit. The administrative cost to prepare the consent would appear to be minimal. However, the additional effort required by the participant regarding audit quality could be significant. While insurance or private contracts may be available to address the liability risks of the participant, the cost associated with insurance or private contracts will be passed on to the auditor and ultimately to the issuer.

Question 15: Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors or other issuers?

Given the precautionary measures already in place (Code of Professional Conduct, peer review programs, professional standards, etc.), we question the benefits that will result from naming other participants in the audit report. Also, we are not aware of any significant problem with standards compliance or with any lack of awareness that professional standards are to be adhered to in performing professional engagements. The negative impact of the consent requirement far outweighs any benefit that would result from implementing this proposed standard.

Question 16: Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not? Would the reproposed requirement to disclose the extent of other participant participation within the range impose fewer costs than a specifically identified percentage?

We do not believe we have the ability to gauge the usefulness of this disclosure to anyone, let alone whether a range of disclosures of other participants is useful. Assuming there is a belief that such disclosures are useful, then a range is better than a specific number as to participation in an audit. Disclosing participation in ranges should result in fewer costs.

Question 17: Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

A higher threshold of disclosure should improve the assumed relevance. We question whether there would be very much reduction in potential costs since an entity would have to accumulate all of the percentages to determine which ones might be excluded. We believe 10 percent is a better threshold than 3 percent or 5 percent.

Question 18: Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

a. **Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?**

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To avoid confusion and possible misinterpretation by firms, it is our belief that all participants, foreign affiliates or not, should be disclosed if their work exceeds the threshold percentages ultimately established.

b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

Yes, we believe the context of the disclosure is sufficiently clear.

Question 19: Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

The practice structure of the auditor is already reviewed by the PCAOB and assuming those requirements are met, further disclosure seems to emphasize one element of a firm's practice structure over others.

Question 20: Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engagement specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If no, why?

How an auditor uses a specialist is clearly described in the existing auditing standards. The disclosure of who, how much, or where is supplemental to the more salient issues of the quality of the specialist's work and the auditor's use of the resulting information. This also presumes that the work of an engaged specialist is completed on an hourly basis instead of some other basis.

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

Challenges and costs for engaged specialists will likely include requests for indemnity related to any public disclosure, certain insurance costs, restrictions and disclaimers on the use and value of the information reported. Additionally, the information will need to be tracked and reported. It is likely that this type of disclosure will come with increased cost compared with not disclosing the information.

Question 21: In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

We can think of no useful purpose that is served by disclosing the name of other participants, especially when one considers the fact that such information is already addressed in AU Section 338, *Using the Work of a Specialist*. Regarding disclosure related to location and extent of participation, there could be some benefit in multinational audits where investors and other users would have an opportunity to consider the quality of those other participants who actually performed the audit of the subsidiaries and/or branches of the entity.

Question 22: If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and information about other relevant participants in the auditor's report, we strongly encourage no further change in the disclosure of the name of audit partners. As a general rule, such information should not be considered in the selection of engagements for inspection. In our opinion, engagement selection should be based on criteria associated with risks of the engagement to the investing public. Although the PCAOB may have identified certain variability in the quality of work between offices and individuals, we believe that is a consideration in the overall quality control environment of the firm and should be addressed as a quality control matter.

Question 23: Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

We are of the opinion that the disclosure requirements identified in the reproposed amendments are equally inappropriate in the audits of brokers and dealers as they are in the audits of publicly traded entities.

Question 24: Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to other participants in the audit for application to audits of EGCs?

We do not believe any benefit exists in making the reproposed disclosure requirements in the audits of EGCs.

Question 25: Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

Because we believe the disclosures required under the reproposed amendments are equally inappropriate to both EGCs and other public companies, we cannot think of any benefits of such disclosures to either type of entity.

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We appreciate the opportunity to provide our input to the standard-setting process.

Sincerely,

Sandra K Brown

Sandra K. Brown, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants

ICAEW

5 February 2014

Our ref: ICAEW Rep 14/14

Your ref: PCAOB Rulemaking Docket Matter No. 029

Office of the Secretary
PCAOB
1666K Street NW
Washington
DC20006-2803

Dear Sir

PCAOB Release No 2013-009

Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

ICAEW is pleased to respond to your request for comments on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit.*

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Katharine E Bagshaw FCA
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ICAEW REP 14/14

ICAEW REPRESENTATION

PCAOB RELEASE NO 2013-009

IMPROVING THE TRANSPARENCY OF AUDITS: PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS TO PROVIDE DISCLOSURE IN THE AUDITOR'S REPORT OF CERTAIN PARTICIPANTS IN THE AUDIT

Memorandum of comment submitted in February 2014 by ICAEW, in response to the PCAOB consultation *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* published in December 2013

Contents **Paragraph(s)**

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* published by the PCAOB in December 2013, a copy of which is available from this link.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

4. The Audit and Assurance Faculty is a leading authority on external audit and other assurance activities and is recognised internationally as a source of expertise on audit issues. It is responsible for technical audit and assurance submissions on behalf of ICAEW as a whole. The faculty membership consists of nearly 8,000 members drawn from practising firms and organisations of all sizes from both the private and public sectors. Members receive a range of services including the monthly Audit & Beyond newsletter.

MAJOR POINTS

ICAEW support for the revised proposals regarding naming the engagement partner, and desire for the issues to be resolved expeditiously for the benefit of all stakeholders

5. The debate over naming the engagement partner has been a long one and we urge the PCAOB to take the necessary steps to finalise its proposals on a timely basis so that investors and auditors can move on. We noted our support for the PCAOB in its efforts to improve the transparency of audits in our response to its October 2011 exposure on the same subject (ICAEW Rep 22/11), and we welcome these revised proposals. Investors have legitimate concerns about responsibility for the audit, who has performed the work on large multi-national audits and the extent to which reliance has been placed on the work of unconnected auditors in distant jurisdictions. Their concerns need to be addressed.

6. In our view, the main justification for naming the engagement partner lies in the fact that investors want it, and that it will do no harm. This is sufficient. In this context, of less importance is:

- our view that in the long run, naming the engagement partner is unlikely to have much effect on auditor behaviour;
- academic evidence suggesting that naming the engagement partner will improve audit quality, which is indirect and based on complex assumptions about proxies for audit quality;
- the lack of comment on the subject either way since its introduction in Europe.

However, we respectfully suggest that the PCAOB seeks to avoid unduly raising expectations about auditor behaviour in response to the proposed new requirements, for these reasons.

Caution regarding the proposal to name others involved in the audit

7. While we acknowledge that the group engagement partner may not be responsible for the full audit opinion, we remain unconvinced about the value of the proposed disclosures relating to other participants in the audit, and we remain concerned about unintended consequences which may include misleading investors about responsibility for the audit. We have similar concerns about the new proposals to disclose the identity of specialists involved in the audit. That said, in other respects these proposals represent an improvement on the original proposals. In particular, we welcome the replacement of the proposed requirement to name many individual other participants in the audit with a requirement to disclose firms and categories of persons. We also welcome the option to disclose a single number or ranges. Nevertheless, we strongly urge the PCAOB to take this final opportunity to consider carefully whether some of its proposals might actually be counter-productive, and how it might ensure that the enhanced audit quality and investor protection it seeks are most likely to be achieved.

Naming other participants in the audit

8. In ICAEW Rep 22/11 we noted our view that if more than one individual or firm involved in the audit appears in the audit report, doubt will be cast on whether the engagement partner identified, or indeed the firm, is actually responsible for the audit. We remain of this view. The revised proposals now include a further requirement for the disclosure of non-accounting/auditing specialists involved in the audit which will add to the potential for confusion regarding responsibility for the audit. Furthermore, the proposals as they stand have no reference to the specialist’s skills or qualifications and, as with other disclosures, the main issue seems to be where participants are located. It is possible that some firms will want to alert investors to the fact other participants are US expatriates and we fear the development of a quite inappropriate focus on location or nationality, over more important issues such as competence and the quality of regulatory oversight.

9. This is *not* to say that we believe that information about who has performed the audit work should be withheld from investors. Rather, we believe that the information might be better located outside the audit report, and cross-referred to it when the relevant threshold is crossed.

10. The PCAOB has considered requiring that these disclosures be made in Form 2 or in a new form filed with the PCAOB. While we agree that there are disadvantages to this approach, requiring inclusion of the information in the audit report is not without disadvantages either. We urge the PCAOB to reconsider this decision in the light of the confusion and genuine threats to accountability that will be presented by including information about other participants in the audit in the audit report. We note in this context the lack of academic evidence cited by the PCAOB in support of these proposals.

11. We remain of the view that disclosure of the percentage of total audit hours performed by other participants in the audit is a poor metric. Investors are concerned about the risks facing the entities in which they invest, including the risk of material misstatement in the financial statements. The percentage of total hours conducted by other participants in the audit tells them nothing about this, nor is it a reasonable measure of the significance of the other participants’ participation. The proposed metric is much more likely to highlight areas in which audit effort was expended on a large volume of routine, low-risk transactions. It is important that such disclosures, if they are to be made, are made in context. An explanation that significant operations in India are audited by offices in India is better than a bald statement to the effect that a percentage of the audit was conducted by an office in India, particularly given the extent of back-office outsourcing and the use of shared service centres by major corporations. If the PCAOB proceeds with this requirement, it should actively encourage the disclosure of this type of contextual information.

12. We acknowledge problems associated with trying to develop financial metrics such as those based on a proportion of revenue, profits or assets, for example, or indeed metrics relating to the extent of senior partner involvement, even though they are likely to be better correlated with risk. Nevertheless, we believe that all such metrics are likely to be more relevant than audit hours. Furthermore, we believe that auditors use financial metrics rather than hours to communicate the extent of participation by others in communications with audit committees. Creating a disconnect between what is communicated to readers and what is typically communicated to audit committees is undesirable. At the very least, metrics other than hours are worthy of further consideration.

13. The distinction between domestic and foreign auditors is less important that the distinction between those who prepare, and those who control and review the papers, and those firms that are inspected by the PCAOB and those that are not. Investors are much more likely to be concerned about situations in which working papers are retained offshore than they are about situations in which they are retained by the group auditors and are subject to the direct supervision of the engagement partner. They are also more likely to be concerned about firms that have not been inspected. We also see no reason to differentiate between foreign offices that are part of the reporting firm and separate legal entities owned by the reporting firm.

14. We welcome the increase in the threshold of disclosure from 3% to 5% but, as indicated in ICAEW Rep 22 /11, we remain of the view that it should be higher. We understand that one of the principal concerns is with situations in which a substantial proportion of the work is performed by other firms. In order to focus on the more extreme cases, would it not be better to require disclosure when a much higher threshold, such as 20%, is triggered? Such disclosures would be less common and thus likely to have a greater impact.

15. Better disclosures at a higher level might also be made if a link was established between these disclosures about other participants in the audit, and paragraph 10 of AS16 which requires auditors to communicate to the audit committee the planned level of involvement of others in the audit and the basis for the auditor's determination that he or she can serve as principal auditor, where significant parts of the audit are to be performed by other auditors.

Naming the engagement partner

16. We acknowledge the academic work performed on the effects of naming the engagement partner but we caution against raising expectations regarding its likely impact on audit quality and investor protection. Disclosure of the engagement partner’s name in the audit report may improve transparency but it will not, of itself, enhance investor protection.

RESPONSES TO SPECIFIC QUESTIONS/POINTS

Q1. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

Q2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

17. The reproposed requirement to disclose the engagement partner's name will be useful to investors if the information is used in an appropriate manner.

18. Despite the fact that the group engagement partner may not be responsible for the full audit opinion, as they stand, the proposed requirements to disclose information about other participants in the audit risk confusing investors as to who is responsible for the audit, about where audit effort has been directed, and by whom it has been performed. This is partly a function of the proposed requirement to disclose information about other participants *in the audit report*, rather than cross-referencing to information elsewhere, which would be preferable, and partly a function of weaknesses in the disclosure requirements themselves as outlined elsewhere in this response.

Q3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

a. **Would such databases or compilations be useful to investors and other financial statement users? If so, how?**
b. **b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?**

Q4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

Q5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

19. The reproposed requirement to disclose engagement partners’ names would facilitate further development of existing databases in which investors track certain aspects of an individual engagement partner's history. Time will tell if this information is actually useful to investors.

Q6. Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

20. We consider it unlikely that disclosure of the identity of the engagement partner would have a significant effect on the allocation of capital.

Q7. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

21. We consider it unlikely that disclosure of the identity of the engagement partner would have a significant effect on competition among audit firms or companies.

Q8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

22. As they stand, unless a good level of contextual information is provided, the reproposed requirements regarding other participants in the audit might well mislead investors, *not* into making unwarranted inferences about the other participants in the audit, about whom they are likely to know very little, but into making unwarranted inferences about the quality of the group audit itself.

23. We note in our major points above our belief that while information about other participants should not be withheld from investors, more thought needs to go into what needs to be disclosed, and where.

24. Investors might well be misled regarding responsibility for the audit simply because information about other participants is disclosed in the audit report. It would be better to disclose this information in Form 2 or in a specially designed form, both of which could be cross-referenced to the audit report.

25. A percentage of total hours is likely to be misleading because of the lack of correlation between hours and audit risk. If the PCAOB proceeds with this requirement, it must try to ensure that such statements are made in context and that appropriate caveats are made regarding the inferences that can be drawn.

Q9. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

26. The PCAOB's arguments to the effect that the additional costs will be small are based on the assumption that disclosure of the engagement partners name will have no effect on the performance of the audit. This is in direct conflict with the PCAOB's clearly stated belief that the requirement can and should affect auditor behaviour, by making auditors more attentive and compliant.

Q10. What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

27. We do not comment on this question.

Q11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

Q12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

28. Notwithstanding the academic evidence cited by the PCAOB, we have no evidence to suggest that naming the engagement partner will change auditor behaviour. That said, it is to be hoped that if the proposed requirement to name the audit engagement partner *does* have an effect on auditor behaviour, that it will be positive.

Q13. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

Q14. What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

Q15. Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

29. The proposals do not appear to deal with situations in which other participants are unwilling to provide the relevant consents. We can envisage situations in which, for example, audits of components are conducted under ISAs and additional work is performed to meet PCAOB requirements. Other auditors may well be unwilling to provide consents in such cases because their work was not conducted in accordance with PCAOB standards without, at the very least, further clarification in the audit report. The negotiations in such situations may well consume resources.

Q16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

30. An option to disclose a range rather than a single figure would be helpful not least because the use of hours is not a perfect metric, and absolute figures would lend a spurious appearance of accuracy to the disclosures.

Q17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the

disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

31. We noted in ICAEW Rep 22/11our belief that a threshold of 20% would be consistent with the definition of a 'substantial role' in the PCAOB's rules. We note in our major points above our belief that a lower threshold will result in a higher volume of disclosures with less impact.

Q18. Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?

32. We note in our major points above our belief that disclosures at a higher level linked to the requirements of paragraph 10 of AS16 would be appropriate. These cover the requirements to communicate to the audit committee the planned level of involvement of others in the audit, and the basis for the auditor's determination that he or she can serve as principal auditor, if significant parts of the audit are to be performed by other auditors.

33. The two important distinctions in this context are not between domestic and foreign auditors, but between those who prepare and those who control and review the papers, and those firms inspected by the PCAOB and those that are not. There is a significant difference between situations in which:

- auditors have work performed offshore, and all working papers produced by the offshore team are sent to the head office team and reviewed by the lead partner, regardless of whether a network firm is used;
- the working papers are retained in the offshore location.

34. We also see no reason for distinctions to be made between foreign offices that are part of the reporting firm and separate legal entities owned by the reporting firm. Absent any contextual information, the proposed disclosures are likely to be of little value to investors and the PCAOB should encourage the disclosure of such contextual information.

Q19. Are there special considerations for alternative practice structures or other non-traditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

35. We do not comment on this question.

Q20. Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

36. We fear that investors may be further confused regarding the responsibility for the audit by these new proposed disclosures. Disclosures are likely to be opaque and to beg more questions than they answer unless clear contextual information is encouraged or mandated.

Q21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

Q22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

37. We note in our major comments above our belief that information regarding other participants should be cross referenced to Form 2 or another PCAOB reporting form. We do not believe that this information needs to be included in two places. Disclosing the name of the engagement partner in the audit report *and* in Form 2 or something similar is also unnecessary.

Q23. Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

38. We do not comment on this question

Q24. Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

Q25. Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?|

39. We do not comment on this question

E kbagshaw@icaew.com

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From: David Tweedie
Sent: Tuesday, March 11, 2014 6:42 PM
To:
Subject: Auditor signing in his own name on behalf of the firm.

Dear Sirs,

I am surprised to learn that the above issue is still a matter of controversy in the world's largest capital market despite having been introduced in other jurisdictions several years ago. From my earlier experience as Chairman of the UK's Auditing Practices Board I always expect the USA to be a leader in improving the audit and not a reluctant follower.

I firmly believe that the requirement for the auditor to sign in his own name on behalf of the firm improves audit quality and helps the market to identify and weed out weak auditors.

As a former senior national technical partner of one of the now Big 4 in the UK, I can remember the anger and frustration felt by partners in the firm some 25 years ago when a senior audit partner was generally too 'client friendly' resulting in his audits twice embarrassing the firm in court actions. We were firmly of the view that had the partner responsible been identified in the audit report on the initial occasion, the second case would not have been necessary as investors and the company would not have wished him to have been in charge of the audit. As it was we all felt tainted by the legal process.

The identification of the partner responsible for the audit will focus his mind and give him a greater sense of responsibility -there is no hiding behind the firm's name. He will make absolutely sure that all parts of the audit are done to his satisfaction -including those parts of the audit undertaken by other firms. Ultimately his reputation is on the line. If he is not satisfied with the thoroughness of others involved in the audit he should refuse to sign until he is convinced that the audit evidence is sufficient to allow him to come to an opinion.

In my former firm we even required the manager responsible for the audit to sign a form stating that, if he were a partner, he would be prepared to sign the audit report. The purpose of the form was exactly the same as a requirement for the audit partner to sign in his own name. It reminded him of his personal overall responsibility for his stewardship of the audit.

Yours faithfully,

David Tweedie

Sent from my iPad

CENTER FOR CAPITAL MARKETS COMPETITIVENESS

TOM QUAADMAN
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March 10, 2014

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006

Re: PCAOB Exposure Draft on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (PCAOB Release No. 2013-009, December 4, 2013; PCAOB Rulemaking Docket Matter No. 029)

Dear Ms. Brown:

The U.S. Chamber of Commerce (the "Chamber") is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. The CCMC believes that businesses must have a strong system of internal controls and recognizes the vital role external audits play in capital formation. The CCMC supports efforts to improve audit effectiveness and appreciates the opportunity to comment on the Public Company Accounting Oversight Board ("PCAOB") Exposure Draft on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* ("the Proposal").

The CCMC has serious concerns that the PCAOB has not met the minimum thresholds needed to move forward on the Proposal, namely the failure to demonstrate how the Proposal will provide investors with decision useful information and what investor interests are being addressed. While the CCMC applauds the PCAOB for establishing the Center for Economic Analysis, the Proposal's cost-benefit analysis is insufficient as it fails to provide stakeholders with an analysis to comment on, nor is any analysis provided to meet the statutory requirements as to why Emerging Growth Companies ("EGCs") should be subject to the Proposal if adopted. Finally, the issues raised in our January 9, 2012 comment letter to the Proposal's predecessor ("2012 letter") remain unaddressed. Accordingly, we have attached the 2012 letter as an appendix to this letter and ask that it also be considered a part of the record.

Our concerns are discussed in more detail below.

I. Background

The Proposal would require disclosure in the auditor's report of the following:

- The name of the engagement partner;

- The names, locations, and extent of participation of other independent public accounting firms that took part in the audit; and

- The locations and extent of participation of other persons not employed by the auditor, whether an individual or a company, ("other participants") that took part in the audit.

The Proposal represents the latest PCAOB release on these matters. In July 2009, the PCAOB issued a Concept Release on *Requiring the Engagement Partner to Sign the Audit Report.* In October 2011, the PCAOB proposed a rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*. The CCMC provided comments on the proposed rulemaking.[1]

[1] *See* the January 9, 2012 letter from the U.S. Chamber of Commerce CCMC to the PCAOB on Proposed Rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (PCAOB Release No. 2011-007, October 11, 2011 and PCAOB Rulemaking Docket Matter No. 29).

II. Naming the Engagement Partner

While the Proposal calls for audit firms to disclose the name of the engagement partner in the auditor's report, it does not provide a meaningful rationale for why this should be done. The Proposal states that this information "***could*** be valuable to investors in making investment decisions as well as if they are asked to vote to ratify the company's choice of registered firm as its auditor" (emphasis added).[2] However, there is a marked failure to show how this change in disclosure will benefit investors and the arguments in support of the Proposal, including those related to audit quality, are superficial.[3]

The Proposal states the "means" of more disclosure but fails to demonstrate the "ends" it seeks to achieve. The Proposal does not articulate the problem that will be resolved through the adoption of the Proposal, or how the Proposal is the best option to solve the undefined problem. Moreover, the Proposal fails to show how investor needs will be enhanced through the naming of the engagement partner.

a. Audit Quality

As we expressed in the 2012 letter, regardless of their nature and size, audits are performed by a team of individuals. In reality, the audit firm's quality control system, in accordance with the PCAOB's "interim" quality control standards, provides the foundation for the efficacy of the work performed on audits. The CCMC continues to believe that investors would be better served by the PCAOB focusing its efforts on updating its quality control standards rather than naming the engagement partner.

The Proposal states that the PCAOB has noticed through its inspection process variation in the quality of audits performed. While the inspections process can and should be a useful tool in setting priorities for the PCAOB, the justification for the Proposal falls short. The Proposal states that, while many factors contribute to this variation, the role of the engagement partner is an important factor to

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[2] *See* page 3 of the Proposal.

[3] Setting aside the conceptual flaws with the Proposal, from a practical standpoint, the CCMC notes that naming the engagement partner in the auditor's report is retrospective and does not necessarily disclose to investors the identity of the engagement partner for the *upcoming* period that applies to the shareholder vote on ratification of the audit firm.

consider.[4] Unfortunately, this is not a compelling argument for this Proposal. If a variation of audit quality is found because of a variety of factors, either that combination of factors must be addressed in a policy response, or a clear and demonstrable showing must be made of how naming the engagement partner is the over-riding cause of such a variation.

The Proposal does not make either case.

Naming the engagement partner does not enable investors or other third-parties to even begin to approach "stepping into the shoes" of the PCAOB or audit committee. Indeed, third-parties may instead get an incorrect view of the role of the engagement partner related to audit quality based on the information available from the name of the engagement partner. Investors are better served by relying on the regulatory and governance processes rather than trying to second guess these processes based on a disclosure of the name of the engagement partner.

Reinforcing this point, the CCMC notes that another current PCAOB initiative focuses on developing audit quality indicators ("AQIs"). The PCAOB staff Discussion Paper for the May 15-16, 2013 meeting of the Standing Advisory Group ("SAG") describes this initiative. The definition of audit quality in the Discussion Paper includes "meeting investors' needs for independent and reliable audits."[5] In this regard, the SAG Discussion Paper provides 40 different AQIs involving operational inputs (13), the audit process (15), and audit results (12). The name of the engagement partner is not among these 40 AQIs. Thus, the PCAOB's own initiative on audit quality does not recognize the relevance of disclosing the name of the engagement partner to investors.

b. Legal Liability

The Proposal calls for placing the disclosure of the name of the engagement partner in the auditor's report. In the 2012 letter, the CCMC expressed concern that disclosing the name of the partner could increase engagement partner legal liability. Disclosure in the auditor's report is a major contributor to the liability increase.

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[4] *See* page 6 of the Proposal.
[5] *See* pages 3 and 4 of the Discussion Paper on AQIs for the May 15-16, 2013 SAG meeting.

The CCMC appreciates that the Proposal contains a section on liability considerations, including under Section 11 of the Securities Act and Section 10(b) and Rule 10b-5 of the Exchange Act.[6] As explained in the Proposal, Section 11 of the Securities Act imposes liability for material misstatements or omissions in a registration statement, subject to a due diligence defense, on "every accountant … who has with his consent been named as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement … which purports to have been prepared or certified by him."[7]

In turn, Section 7 of the Securities Act requires issuers to file with the Securities and Exchange Commission ("SEC") the consent of any accountant who is named as having prepared or certified any part of the registration statement or any valuation or report included in the registration statement. The Proposal recognizes that engagement partners (and participating accounting firms) named in the auditor's report would have to consent to the inclusion of their names in such reports filed with the SEC, or included by reference in another document filed under the Securities Act with the SEC.[8]

As to Section 11 liability, the Proposal acknowledges litigation-related costs would increase, but conjectures that these costs should "not be substantial."[9] As to liability under Section 10(b) of the Exchange Act, the Proposal acknowledges concerns similar to those we expressed in our letter of January 9, 2012 and states that the Board "cannot conclude with certainty whether its approach might increase liability."[10]

The CCMC continues to strongly believe that "liability neutral" represents a minimum threshold for proceeding with any initiative that would involve disclosing the name of the engagement partner. The CCMC urges the PCAOB to recognize this important pre-condition as anything other than liability neutral standards will ultimately harm investors. Such a precondition should also be a part of an economic

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[6] *See* pages 20-26 of the Proposal.
[7] *See* page 21 of the Proposal.
[8] *See* pages 21-22 of the Proposal.
[9] *See* page 23 of the Proposal.
[10] *See* page 25 of the Proposal.

analysis.[11] Economic analysis should be used to determine if a proposed standard or revision to a standard is liability neutral and if not what the costs to investors and businesses will be.

c. Placement of Disclosures

While the CCMC does not support a requirement to disclose the name of the engagement partner, we would also like to comment on the Proposal in regards to the placement of any such disclosure. If any such requirement ensues from this initiative, disclosures should not be in the audit report. Rather than being part of the auditor's report, any such disclosure seems better suited for inclusion in a report by the audit committee in the proxy statement.

Importantly, the PCAOB could have circumvented some of the Section 11 liability concerns previously discussed by not proposing the name of the engagement partner (and other participants involved in the audit) be disclosed in the auditor's report. An alternative mode of naming the engagement partner would be a disclosure on the PCAOB's website through the use of Form 2.

In this regard, it is worth recalling that the PCAOB's October 2011 Proposed Rulemaking would have required disclosure of the name of the engagement partner in both the audit report and PCAOB Form 2. Instead of focusing the initiative on disclosures in Form 2, the current Proposal would require the disclosure only in the audit report. Apparently this focus was premised on arguments that disclosures in the audit report on the SEC's website would be more timely and accessible for investors. However, these arguments are not at all compelling.

It is unclear as to why a posting on both the SEC's and PCAOB's websites would not be the preferable route of disclosure. If the decision to make this disclosure on the SEC website alone is because the PCAOB's website is not "user friendly", that is a problem that can be fixed by the PCAOB. It cannot be used as a rationale to impose costs on all stakeholders. Moreover, according to the PCAOB's Strategic Plan and statements by Board members at the PCAOB's November 25,

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[11] Liability neutrality is not a new concept; it was also included in the *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* (2008), VII: 19-20.

2013 open meeting on the PCAOB budget,[12] the PCAOB already has an initiative underway to leverage its technology, improve the "usability" of its website, and enhance communication to public constituencies. Thus, this technology "impediment" seems fixable in the near term; and, it is under the purview of the PCAOB to do so.

Further, the notion that investors would have all necessary information in-hand with disclosure of the name of the engagement partner in the audit report is flawed. Setting aside that the name of the engagement partner is unlikely to provide any actionable information for investors, there is no information content in the name of the engagement partner per se. Indeed, it is unclear how the disclosure of a name, which on its face will be of no utility to an investor, will help the reasonable investor make an investment decision. Indeed, the PCAOB acknowledges in the Proposal that this disclosure would have to be considered in combination with other information.[13]

It appears that the PCAOB envisions some of this other information would come from the SEC's website, but it would also involve information on the PCAOB's existing website as well. In addition, according to the Proposal, much of this other information would have to be obtained (and only available over time) from academic research and databases developed by third-parties.[14] Thus, the argument that the name of the engagement partner needs to be included in the audit report in order for investors to have all necessary information readily available in one place falls apart in practice.

Not disclosing the name of the engagement partner (and other participants in the audit) in the auditor's report would likewise avoid the complex and costly administrative nightmare that would be imposed on audit firms and issuers from needing to obtain Section 7 consents from engagement partners (and other participating accounting firms) so that issuers could file required consents with the SEC. The Proposal fails to recognize the multiple difficulties that would arise in trying to obtain such consents. These difficulties would likely hinder the ability of issuers to make timely filings with the SEC, thereby harming investors.

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[12] For example, see *PCAOB Strategic Plan: Improving the Quality of the Audit for the Protection and Benefit of Investors 2013-2017* (November 26, 2013), pages 16-17.
[13] *See* page 11 of the Proposal.
[14] *See*, for example, pages 12-13 of the Proposal.

As just one example of the difficulties that could arise from needing Section 7 consents, assume that an engagement partner is rotated off an audit because of the Sarbanes-Oxley Act of 2002 ("SOX") mandatory partner rotation requirement and the SEC's rules implementing this requirement. Also assume that the partner's initial consent needs to be reissued. On one hand, the partner would need to do additional work in order to allow the reissuance of the consent.[15] On the other hand, the partner would be precluded from doing any additional work because it would cause the audit firm to be in violation of the SEC's independence rules. Moreover, this example assumes the partner would be willing and able to reissue the consent and does not consider the need to address the myriad of circumstances when this would not be the case.

The Proposal appears to set up a dynamic whereby PCAOB requirements would force the SEC to waive its requirements (as a matter of policy) for audit partners (and other participants in audits) to reissue their consents in a broad array of circumstances in order to make our markets function efficiently.

All things considered, the arguments in the Proposal for disclosing the name of the engagement partner (and other participants in the audit) in the audit report are simply not convincing. The proposed placement of the disclosures significantly increases the costs of the Proposal, including legal and administrative costs, for no substantive benefit. The CCMC strongly urges that the PCAOB reconsider the Proposal in this regard.

III. Other Participants in the Audit

In addition to disclosing the name of the engagement partner, the Proposal would also require that the audit report disclose the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and the locations and extent of participation of other persons not employed by the auditor. The proposed threshold for these disclosures is any public accounting firm or other participant performing 5% or more of the total hours in the most recent period's audit. This threshold is designed to demonstrate if an accounting firm plays a substantial role in the audit. The current threshold is 20%.

[15] Our discussion sets aside any considerations related to determining the nature of and standards for this work.

While the CCMC appreciates that the Proposal does raise the threshold from the 2011 proposal of 3% to 5%, we believe that the Proposal does not provide a compelling case for why the current 20% threshold should not be used instead.

As expressed in our 2012 letter, we do not believe that it is in the best interests of financial reporting to move forward on these matters. And, as previously discussed in this letter, we continue to be concerned that any such disclosures do not belong in the auditor's report.

IV. Cost Benefit Analysis

The Proposal recognizes that the Jumpstart Our Business Startups Act ("JOBS Act") now makes economic analysis a necessary pre-condition for applying new PCAOB auditing standards and rules to an audit of any emerging growth company ("EGC"). Specifically, Section 103(a) (3) of SOX as amended by Section 104 of JOBS Act requires that rules adopted by the Board after the date of enactment of JOBS Act shall not apply to an audit of any EGC, unless the SEC determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation. The Proposal recommends that EGCs follow the requirements if adopted.

At the outset, we commend the PCAOB for establishing the Center for Economic Analysis to help fulfill the statutory requirements of the JOBS Act. The CCMC has been a strong advocate of economic analysis as a means of using empirical evidence to guide smart regulation and standard setting.[16]

However, in our view, the economic analysis provided with the Proposal fails to provide commenters with any information to comment on and fails to delineate the costs or benefits to EGCs if they are to follow the requirements of the Proposal. Indeed there is no analysis to provide an articulation of the benefits or of the costs to

[16] For example, see the December 9, 2013 letter from the U.S. Chamber of Commerce CCMC to the PCAOB on Proposed Auditing Standards on *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; the Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards* (PCAOB Release No. 2013-005, August 13, 2013 and PCAOB Rulemaking Docket Matter No. 34).

EGCs. This not only calls into question the ability of the Proposal to meet the economic analysis requirements needed for the Proposal to be approved through the SEC's rulemaking process, it also raises questions regarding the level of the PCAOB's commitment to economic analysis.

A review of some academic studies of companies in jurisdictions that do not have similar legal, regulatory, governance, market, and cultural environments and structures with the United States does not pass muster as an economic analysis. The Proposal contains no analysis or articulation of the direct costs to issuers, the direct costs to auditors, possible liability costs to issuers, possible impacts on stock price, possible impacts on returns to investors, potential discussion of benefits, if any public companies in the United States voluntarily disclose the name of the engagement partners and the costs and benefits comparing those companies to similarly situated companies. This is by no means an exhaustive list, but it is the type of analysis that accompanies proposed regulations when required by law. As such an analysis is required by the JOBS Act and as this Proposal must go through the SEC rulemaking process which will require an analysis of the impacts on competition and capital formation a more thorough study subject to public comment is necessary to move forward in applying the Proposal to EGCs.

The CCMC notes that the PCAOB's Strategic Plan for 2013-2017 states the PCAOB has developed "internal" guidance on economic analysis.[17]. The CCMC strongly urges the PCAOB to release its internal guidance on economic analysis for public comment so that stakeholders can be informed of the PCAOB's understanding of the role of economic analysis and how it can be used. Such public commentary can create a useful dialogue on the issue that all sides can benefit from. The merits of the PCAOB's analysis of costs and benefits in any particular proposal cannot be evaluated without understanding the essentials of the guidance being applied by the PCAOB for economic analysis.

The CCMC is very disappointed with the level of economic analysis provided in the Proposal and believes that it cannot pass the requirements of the JOBS Act and other statutory provisions that must be met for the Proposal to be approved and

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[17] For example, see page 13 of the PCAOB *Strategic Plan: Improving the Quality of the Audit for the Protection and Benefit of Investors 2013-2017* (November 26, 2013).

become operational. Economic analysis, with a thorough weighing of the costs and benefits, can and should be used as a means of using empirical evidence to develop smart regulations. That goal has not been met.

V. Conclusion

Once again, the CCMC appreciates the opportunity to comment on the Proposal. However, the CCMC has serious concerns that the Proposal in its current form is flawed.

The Proposal fails to demonstrate how naming an engagement partner will improve audit quality, will provide investors with decision-useful information, and what investor interests are being addressed. Additionally, the cost-benefit analysis is insufficient as it fails to provide stakeholders with an analysis to comment on, nor is any analysis provided to meet the statutory requirement that must be fulfilled for the Proposal to be applied to EGCs. Indeed, we are concerned about the commitment of the PCAOB to a robust economic analysis as envisioned by the bipartisan JOBS Act.

Thank you for your consideration and the CCMC stands ready to assist in these efforts.

Sincerely,

Tom Quaadman

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

March 17, 2014

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Subject: *PCAOB Rulemaking Docket Matter No. 029: PCAOB Release No. 2013-009: Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Public Company Accounting Oversight Board's (PCAOB) exposure draft.

We support efforts to improve the quality of financial reporting and increase the confidence users have in the audit of financial statements. However, we do not believe that certain of the proposed enhancements to the auditor's report, such as the disclosure of the name of the engagement partner or a general requirement to disclose the names, locations, and extent of participation of other public accounting firms that took part in the audit (in addition to the locations and extent of participation of other participants in the audit) are critical to the perceived value of the financial statement audit or add value to the users of the financial statements.

Disclosure of the Name of the Engagement Partner

The PCAOB anticipates that this engagement partner information would be used to develop databases and other compilations of information on individual partners and may be used to develop partner ratings. PCAOB states that it does not believe that such information would necessarily be harmful and could, to the contrary, be useful to investors and other financial statement users. However, we do not believe that the PCAOB has presented sufficient evidence to show that a repository of information on individual partners would improve the quality of financial reporting, or increase the confidence users have in the audit of financial statements. Further, we are concerned that this information could be misleading or confusing to investors and other financial statement users for several reasons, as follows:

- There are many factors that go into audit quality, and a repository of engagement partner information would not provide the complete information necessary for users to effectively assess audit quality, and therefore may lead to incorrect assessments about audit quality. Audit regulators and the audit firms' quality assurance processes play a critical role in assuring audit quality to financial statement users. They have more complete information on audit quality, and are in a position to take appropriate action to address any audit quality issues.

- We believe that the use of a rating system would likely create confusion and uncertainty as it would raise doubts to the user about whether, or the extent to which, an individual audit met professional standards. This confusion and uncertainty may ultimately decrease user confidence in all financial statement audits.

- We acknowledge the important role played by the engagement partner, but while the audit engagement partner has a unique role, the focus of the proposed amendment upon the identification of the engagement partner ignores that the audit firm, as a whole, also affects audit quality. We believe that the users of the audit report may not understand that the firm performing the audit is responsible for the audit work, rather than solely the engagement partner. For example, the users of the audit report may not understand that the signature of the engagement partner represents an organization-wide process that includes staff selection, independence considerations, and quality assurance processes. Further, we believe that the signature of the engagement partner does not capture the extent of the audit work that is performed when auditors report upon the published financial statements and other audit reports of large, multinational engagements.

Rather than relying on databases and other compilations of potentially incomplete information, we believe it is more appropriate for users to rely on the audit regulators and the firms, through their quality assurance processes, to take appropriate measures to assure investors that audits of public companies reasonably meet professional standards, and that users can therefore be confident in the auditors' opinions. We support the PCAOB's mission to further the public interest in the preparation of "informative, accurate, and independent audit reports." To achieve this mission, under Section 104 of the Sarbanes-Oxley Act of 2002[1], PCAOB inspects registered firms to assess their compliance with professional standards, and the PCAOB has the authority to investigate and discipline registered public accounting firms and persons for noncompliance. As noted in the reproposed standards, this authority has enabled the PCAOB to obtain information related to engagement partner quality history. Further, the Securities and Exchange Commission (SEC), local boards of accountancy and the firms themselves play a role in assessing and maintaining firm and individual compliance with professional standards through their peer review and internal quality assurance programs, respectively. For these reasons, we believe that the responsibility for identifying acts noncompliant with the rules or standards and enforcing discipline for them should rest with the PCAOB, SEC, the local boards of accountancy, and the firms themselves. The disclosure requirements suggested in the reproposed standards would not provide investors with sufficient information to make an informed decision about a firm's or individual's performance in compliance with professional standards.

Section 301 of the Sarbanes-Oxley Act states that the audit committee of each issuer shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer for the purpose of preparing or issuing an audit report or related work, and each such registered public accounting firm shall report directly to the audit committee. Accordingly, the audit committees will be aware of the identity and audit performance of their key engagement personnel, including the audit partner, as part of the auditor selection process. The PCAOB could consider whether the members of the audit committees are adequately informed of any audit performance issues relating to the key engagement team members, such as their restatement history, in addition to the relevant circumstances and safeguards employed by the firm.

If the PCAOB nevertheless determines that public disclosure of the audit partner is appropriate, it would be better to include information such as the name of the engagement partner in the shareholder's proxy statement, which may be more relevant to the auditor selection process, rather than in the auditor's report. In such circumstances, we would

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[1] Sarbanes-Oxley Act of 2002, Pub. L. No.107-204, § 104, 116 Stat. 745.

encourage the PCAOB to preface the disclosure of the name of the engagement partner with a statement to inform the user that an audit is not conducted by one individual (the engagement partner), but a group of auditors, and possibly specialists, represented by the engagement partner.

Disclosure about Certain Other Participants in the Audit

We support a disclosure requirement when audit work is performed by a foreign affiliate or other entities distinct from the accounting firm issuing the auditor's report that are located in jurisdictions in which the PCAOB is unable to conduct inspections. Limiting disclosure to such firms may serve to highlight audits with potentially less effective oversight. However, such a disclosure may be more appropriate in a shareholder’s proxy statement than in the auditor’s report.

Further, we are concerned that a general requirement for additional disclosures of the names, locations, and the extent of participation of other public accounting firms that took part in the audit may lead to the auditor’s report becoming even longer and more unwieldy, and may lead to the inclusion of “boilerplate” language that does not add value to the report. We also question whether there are data to demonstrate that such additional disclosures would be useful. If the PCAOB does require such a disclosure, we believe that the extent of other participants' participation should meet a relatively high threshold (e.g., 10 percent of billable hours or other similar, prescribed criteria) before a disclosure of their participation in the auditor’s report would be required.

Requests for Specific Comments

The PCAOB is seeking comments on a number of areas within the proposed standard. We have provided discussion on the areas listed in the exposure draft, and our responses to the specific questions included in the exposure draft are included in the enclosure to this letter.

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We thank you for considering our comments on these important issues as the PCAOB continues its effort to enhance the value of auditor reporting.

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

Enclosure – Answers to Questions for Commenters

1. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

We do not believe that the reproposed requirements to disclose the name of the engagement partner or other public accounting firms that took part in the audit are critical to the perceived value of the financial statement audit or add value to the users of the financial statements.

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

As noted in our letter, we do not support the proposed requirement. Further, as such incomplete information may lead to incorrect assessments about audit quality, we question whether such additional disclosures would be useful to shareholders in deciding whether to ratify the company's choice of auditor. If the PCAOB determines that public disclosure of the audit partner is appropriate, it would be better to include information such as the name of the engagement partner in the shareholder's proxy statement rather than in the auditor's report. In such circumstances, we would encourage the PCAOB to preface the disclosure of the name of the engagement partner with a statement to inform the user that an audit is not conducted by one individual (the engagement partner), but a group of auditors, and possibly specialists, represented by the engagement partner.

3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

We believe that the development of databases and other compilations may be an outcome of this proposed requirement. However, we are concerned that this could be misleading or confusing to investors and other financial statement users, resulting in incorrect assessments about audit quality based on such limited, incomplete information.

> **a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?**
>
> We have concerns that the development of databases or other compilations would not provide complete information necessary for users to assess audit quality and therefore may result in incorrect assessments about audit quality.
>
> **b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?**
>
> As noted in our previous response, we have concerns that the development of databases or other compilations would not provide complete information necessary for users to assess audit quality and therefore may result in incorrect assessments about audit quality.

4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

We have concerns that the reproposed requirement to disclose the other participants may lead to reports becoming longer and more unwieldy, and may lead to the inclusion of "boilerplate" language that does not add value to the report.

5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

Although GAO typically identifies the engagement partner and provides contact information for that engagement partner in our published reports, we do not feel that the ability to research publicly available information about the engagement partner or other participants in the audit is important because of the diversified responsibility of an audit engagement in the private sector. Further, as we have previously noted, we believe that the publicly available information would not provide the complete information necessary for users to assess audit quality and therefore may result in incorrect assessments about audit quality.

6. Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

We have no data to support the contention that the requirement to disclose the engagement partner's name would promote more effective capital allocation, and we also have no data or evidence to support the contention that an engagement partner's history provides a signal about the reliability of the audit or the company's financial statements.

7. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

We do not believe that the requirement to disclose the engagement partner's name would necessarily promote or inhibit competition among audit firms or companies.

8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

As mentioned in our letter, we are concerned that investors may make incorrect assessments about audit quality based on such limited, incomplete information, and that user confidence in the audits of financial statements may be diminished. Further, we have concerns that a disclosure requirement may lead to investors and financial statement users misunderstanding the diversified responsibility of an audit, and the users of the audit report may not understand that the firm performing the audit is responsible for the audit work, rather than solely the engagement partner.

9. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on Emerging Growth Companies (EGCs) or auditors of EGCs than on other issuers or auditors of other issuers?

The reproposed requirement to disclose the name of the engagement partner in the auditor's report would not appear to significantly affect audit costs, based on our practice.

10. What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the Securities and Exchange Commission (SEC), as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

GAO has no views on this question relating to the administrative costs to obtain and file consents with the SEC.

11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

GAO has no views on this question relating to the consent requirements and effects upon EGCs, or the auditors of EGCs.

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

We believe that engagement partners already have a strong sense of accountability, and we do not believe that the reproposed amendments would increase the sense of accountability for engagement partners or other participants in the audit.

13. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

The reproposed requirement to disclose information about other participants in the auditor's report would not appear to significantly affect audit costs.

14. What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

GAO has no views on this question relating to the costs to obtain and file consents with the SEC.

15. Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing

requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

GAO has no views on this question relating to the consent requirements and effects upon EGCs, or the auditors of EGCs.

16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

We do not believe that the disclosure of the extent of other participants' participation, either within a range or as a specific number, provides useful information to investors and other financial statement users or adds value to the users of the financial statements. The determination of the extent of other participants' participation may be problematic, especially in large or multinational engagements with a large number of other participants.

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

We do not support the proposed requirement to disclose the engagement partner's name and information about other participants in the auditor’s report, and we question whether such additional disclosures would be useful. However, if the PCAOB should choose to require this disclosure, we believe that the extent of other participants' participation should meet a higher threshold (e.g., 10 percent of billable hours or similar, prescribed criteria) before disclosing the extent of other participants' participation.

18. Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

> **a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?**
>
> We agree that the disclosure of the location and extent of participation in the audit of other accounting firms and other persons not employed by the auditor that are located in jurisdictions in which the PCAOB is unable to conduct inspections would allow users to understand when portions of the audit are not subject to PCAOB oversight. Accordingly, we support a disclosure requirement when audit work is performed by a foreign affiliate or other entities distinct from the accounting firm issuing the auditor's report that are located in jurisdictions in which the PCAOB is unable to conduct inspections. However, we believe that such a disclosure may be more appropriate in a shareholder’s proxy statement than in the auditor’s report.
>
> **b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?**

The disclosure requirement in the context of offshoring is sufficiently clear.

19. Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

We are not aware of any special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit.

20. Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

We do not support the requirement for disclosure about the location and extent of participation of engaged specialists and other participants and we question whether this information would be relevant or useful to investors and other financial statement users. Additionally, we believe that the disclosure of the location and extent of participation of “engaged specialists” would add complexity to the auditor’s report without adding useful information to the users of the auditor’s report.

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

We believe that the challenges or costs associated with implementing this requirement for engaged specialists would be those involved in securing the agreement to disclose the location of the engaged specialists and extent of their participation.

21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

We do not support the requirement for disclosure about the location and extent of participation of engaged specialists and other participants and we question whether this information would be relevant or useful to investors and other financial statement users.

22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

GAO has no views on this question relating to the disclosure of the name of the engagement partner and certain information about other participants on Form 2 or any other PCAOB reporting form.

23. Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

We believe that if implemented, the reproposed amendments should apply to the audits of brokers and dealers.

24. Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

We believe that if implemented, the reproposed amendments should apply to the audits of EGCs.

25. Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

We do not believe that the required disclosures would be either more or less important in audits of EGCs.

United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

February 3, 2014

Via Electronic Submission (comments@pcaobus.org)

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket No. 29 on Disclosing Audit Engagement Partners

Dear Members of the Board:

The purpose of this letter is to express support for the proposal by the Public Company Accounting Oversight Board (PCAOB) to improve audit quality, transparency, and accountability by requiring registered public accounting firms to disclose the name of the lead engagement partner in each audit report as well as the name of any other independent public accounting firm that took part in the audit.[1] This letter also urges the Board to reinstate two key transparency measures dropped from its 2011 proposal, requirements that annual reports filed with the PCAOB disclose audit engagement partner names and that public audit reports identify by name all third party audit participants that performed substantial work. In addition, this letter supports requiring engagement partners to sign the audit reports for which they are responsible.

Strengthening Public Company Audits. The U.S. Senate Permanent Subcommittee on Investigations, where we served until recently as Chairman and Ranking Minority Member, has long had an interest in strengthening audits of publicly traded corporations to protect investors, prevent fraud, and provide a strong foundation for the American economy. Our investigations have included exposing the poor quality audits that contributed to the collapse of the Enron Corporation,[2] the development and sale of financial products designed to help corporations hide debt on their financial statements,[3] and the development and sale of abusive tax shelter and other schemes by accounting firms and other professionals to minimize corporate taxes and inflate corporate earnings.[4] The Subcommittee's work has contributed to legislative efforts to

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[1] See PCAOB Release No. 2013-009, "Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit" (Dec. 4, 2013), PCAOB Rulemaking Docket Matter No. 029 (hereinafter "PCAOB Release No. 2013-009").
[2] See "The Role of the Board of Directors in Enron's Collapse," S. Hrg. 107-511 (May 7, 2002).
[3] See "The Role of the Financial Institutions in Enron's Collapse," S. Hrg. 107-618 (July 23 and 30, 2002).
[4] See, e.g., "U.S. Tax Shelter Industry: The Role of Accountants, Lawyers, and Financial Professionals," S. Hrg. 108-473 (Nov. 18 and 20, 2003); "Tax Haven Abuses: The Enablers, The Tools and Secrecy," S. Hrg. 109-797 (Aug. 1, 2006) (case histories involving the POINT strategy and Kurt Greaves); "Offshore Profit Shifting and the

strengthen the auditing process, including the Sarbanes-Oxley reforms that created the PCAOB, imposed new requirements to ensure auditor independence, and strengthened corporate board oversight of auditing procedures.[5]

Poor quality audits of publicly traded corporations continue to plague the U.S. investment community, allowing misleading accounting, outright frauds, and substantial losses to occur. Egregious examples include Lehman Brothers Holdings Inc., whose bankruptcy disclosed that its auditor, Ernst & Young, approved financial statements that misrepresented its financial condition, including by mischaracterizing the status of $50 billion in assets;[6] Longtop Financial Technologies Ltd., where a Chinese affiliate of Deloitte Touche approved financial statements which it later determined contained numerous indicia of financial fraud;[7] Olympus Corp., where KPMG and Ernst & Young affiliates in Japan approved financial statements that omitted $1.7 billion in losses;[8] and Satyam Computer Services Ltd., where a PricewaterhouseCoopers affiliate approved financial statements in which the company reported years of inflated assets and cash balances.[9]

The SEC has also instituted proceedings against the Chinese affiliates of five major U.S. auditors for refusing to produce audit work papers related to financial statements approved for nine U.S. publicly traded corporations now suspected of accounting fraud.[10] An SEC administrative law judge recently censured all five Chinese firms and ordered four suspended from practicing before the agency for six months.[11] Those cases are on top of older accounting scandals involving prominent public corporations like Enron, WorldCom, Xerox, and Adelphia.[12] These audit failures indicate that more needs to be done to encourage accurate and effective audits of public corporations and increase accountability for poor auditing practices.

U.S. Tax Code – Part 1 (Microsoft and Hewlett-Packard)," S. Hrg. 112-781 (Sept. 20, 2012) (case history on Hewlett-Packard's use of serial, short term loans to repatriate offshore income without paying U.S. taxes).

[5] See Sarbanes-Oxley Act of 2002, P.L. 107-204.

[6] See In re Leman Brothers Holdings Inc., Chapter 11 Case No. 08-13555 (JMP) (US Bankruptcy Court SDNY), Report of Anton R. Valukas, Examiner (March 11, 2010), at 5-8 (including discussion of "Repo 105"), http://jenner.com/lehman/lehman/VOLUME%201.pdf.

[7] See, e.g., SEC v. Deloitte Touche Tohmatsu CPA Ltd., Case No. 1:11-MC-00512 (D.D.C. filed Sept. 8, 2011); In re Longtop Financial Technologies Ltd., Case No. 3-14622 (Nov. 10, 2011), http://www.sec.gov/litigation/admin/2011/34-65734.pdf.

[8] See, e.g., U.S. v. Chan Ming Fon, Case No. No. 13-CR-00052 (LTS)(USDC SDNY), Information, http://www.justice.gov/usao/nys/pressreleases/September13/ChanMingFonPlea/U.S.%20v.%20Chan%20Ming%20Fon%20Information.pdf; "Ex-Banker Pleads Guilty in Olympus Accounting Fraud," Reuters (Sept. 18, 2013), http://www.reuters.com/article/2013/09/18/us-olympus-banker-plea-idUSBRE98H0YE20130918.

[9] See, e.g., SEC v. Satyam Computer Services Ltd., Case No. 1:11-cv-00672 (D.D.C. assigned Apr. 5, 2011), SEC complaint, http://www.sec.gov/litigation/complaints/2011/comp21915.pdf; "Satyam: Not The Only Case PwC Worried About," Accounting Watchdog (Aug. 5, 2011), http://www.forbes.com/sites/francinemckenna/2011/08/05/satyam-not-the-only-case-pwc-worried-about/.

[10] In re BDO China Dahua CPA Co., Ltd., Ernst & Young Hua Ming LLP, KPMG Huazhen (Special General Partnership), Deloitte Touche Tohmatsu CPA Ltd., PricewaterhouseCoopers Zhong Tian CPAs Ltd., Administrative Proceeding File No. 3-15116 (SEC Dec. 3, 2012), SEC Order Instituting Administrative Proceedings Pursuant to Rule 102(e)(1)(iii) of the Commission's Rules of Practice and Notice of Hearing.

[11] In re BDO China Dahua CPA Co., Ltd., Ernst & Young Hua Ming LLP, KPMG Huazhen (Special General Partnership), Deloitte Touche Tohmatsu CPA Ltd., PricewaterhouseCoopers Zhong Tian CPAs Ltd., Administrative Proceeding File Nos. 3-14872, 3-15116 (SEC Jan. 22, 2014), Initial Decision (Public).

[12] See, e.g., Sen. Levin Remarks, Cong. Rec. S6563 (July 10, 2002).

A. PCAOB Proposal

In 2009, in a bid to strengthen audit quality, transparency, and accountability, the PCAOB issued a Concept Release seeking comment on whether auditors should require the engagement partner with final responsibility for a particular audit to sign the audit report. The engagement partner is the key person within a registered public accounting firm who is "responsible for the engagement and its performance," and who coordinates and oversees the audit work and issuance of the audit report.[13]

After receiving multiple comments, two years later in 2011, the PCAOB issued a proposal for public comment. The 2011 proposal would have required public auditors to disclose the name of the engagement partner in each audit report, but would not have required the partner to sign the report. It also would have required each audit report listed in a public accounting firm's Annual Report Form to identify the relevant engagement partner and would have required each audit report to disclose the name of any independent public accounting firm or other person who took part in the audit.

After receiving still more public comments and waiting another two years, the PCAOB issued the revised proposal currently under consideration. The 2013 proposal would still require the disclosure of engagement partner names on audit reports, but would no longer require the partner names to be listed on the Annual Report Forms. It would still require audit reports to disclose the name of any third party public accounting firm that participated in the audit, but would no longer require disclosure of the names of other persons who took part in the audit. Overall, the 2013 proposal is disappointing, given the many years involved in its production and its continued weakening of the transparency measures proposed in 2009 and 2011. While it still proposes important transparency and accountability features, the 2013 proposal falls short of what is needed and should be strengthened by reinstating key transparency measures in the earlier PCAOB releases.

Increased Public Disclosure. The PCAOB effort to increase public disclosures about who actually conducts and is responsible for particular audit reports is a welcome departure from a long history of excessive secrecy and weak accountability for U.S. public company audits.

Most public company audits are now performed by a small number of large firms. The "Big Four" accounting firms, which reported record revenues of over $100 billion in 2013 alone,[14] employ thousands of auditors with differing experience, qualifications, expertise, and work performance. Currently, these firms provide no routine public information about the

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[13] See paragraph 3 of Auditing Standard No. 9, "Audit Planning"; see also paragraph 3 of Auditing Standard No. 10, "Supervision of the Audit Engagement."

[14] See, e.g., "PwC FY 2013 Global Revenues Grow to US $32.1 billion" (Oct. 3, 2013), http://press.pwc.com/GLOBAL/News-releases/pwc-fy-2013-global-revenues-grow-to-us32.1-billion/s/a25dfdaa-5ae8-4818-b09a-99a3821e3765; "Deloitte grows for fourth consecutive year, reporting US $32.4 billion in revenue" (last updated Sept. 16, 2013), http://www.deloitte.com/2013revenues; "EY reports 2013 global revenues of US$25.8 billion" (Oct. 8, 2013), http://www.ey.com/GL/en/Newsroom/News-releases/News_EY-reports-2013-global-revenues-of-US-25-8-billion-dollars#.Utli7BAo5aQ; "KPMG achieves record global revenues for FY13" (Dec. 12, 2013)(reporting "record-high aggregated revenues of US$23.42 billion"), http://www.kpmg.com/global/en/issuesandinsights/articlespublications/press-releases/pages/kpmg-achieves-fy13-global-revenues.aspx .

engagement partner who is responsible for the audit of a particular company nor do they provide information about any third party contributor to their audits. Investors, lenders, regulators, and others currently have no means for tracking audit partners responsible for accurate audits or audit failures.

Because auditing firms are paid by the companies whose financial statements they audit, inherent conflicts of interest make public accountability and transparency all the more important. An accounting firm that receives large auditing fees from a client becomes susceptible to pressures by that client to overlook problems or resolve auditing issues in ways that are overly favorable to the client, or risk losing fee revenue. Engagement partners that recommend advising a client to accept a disagreeable auditing result may receive little or no support from colleagues concerned about losing business. Auditing firms attempting to sell consulting services to audit clients may also seek to pressure colleagues to avoid making negative audit findings. Public accountability, in which specific audit partners are recognized for high quality audits, as well as audit failures, can be a powerful antidote to such internal pressures.

Disclosing the Engagement Partner. Multiple reasons support disclosing the name of the engagement partner responsible for a particular audit. First is the impact on audit quality. Publicly tying the lead auditor's professional reputation to the audits for which that partner is responsible would encourage the partner to require better audit procedures, exercise better supervision of the audit team, and perform a more careful review of the audit results. It may also deter poor oversight, sloppy procedures, and high risk audit practices leading to unreliable audit opinions. Audit quality would improve, not only because engagement partners would want to protect their professional reputations, but also because public disclosure would expand the audience to which each partner would be routinely answerable, from the partner's firm and the audit client, to the broader business community, including investors, lenders, regulators, policymakers, and fellow auditing professionals.

Second, disclosure of the engagement partner's name would strengthen audit transparency by shedding light on the audit process and facilitating communications. Identifying the engagement partner would alert the audited corporation's officers, directors, audit committee, and employees to the key person responsible for resolving audit issues and help corporate employees communicate any auditing concerns to the right person. It would also inform persons outside of a public company, including investors, lenders, regulators, and others, of the right person to contact with financial reporting interests or concerns. In addition, knowing the key person responsible for an audit could facilitate investigations, simplify research, and aid in evaluating audit reports. Investigations examining financial misconduct would also be more efficient and effective if they had ready access to the names of the engagement partners responsible for particular audit reports.

Public disclosure would also facilitate evaluation of senior auditors and the audit reports for which they are responsible. Disclosure would enable not only the audit client, but also investors, lenders, regulators, and other financial statement users, to identify and evaluate an engagement partner's experience, expertise, track record, and work for other clients that might present conflict of interest problems. It would also help shareholders evaluate audit firm performance when asked to vote on keeping or changing the company's public auditor.

Third, disclosure of the engagement partner would strengthen both partner and firm accountability for audit failures. Right now, when a company is found to have engaged in misleading or fraudulent accounting, the identity of the engagement partner is not readily apparent; making that information publicly available would facilitate holding particular engagement partners accountable for the audits they oversee. Because both the engagement partner and the public accounting firm would be identified in the audit report, the current proposal intentionally and clearly signals that accountability is intended to attach to both. In addition, as engagement partners are often indemnified by their employers in the same manner as officers and directors of corporations, any lawsuit over inaccurate financial reporting would likely affect the firm as well as the partner, providing an added incentive for the firm to monitor the performance of its engagement partners.

A fourth reason to support the PCAOB proposal is that it would promote auditor independence by highlighting the occasions on which an engagement partner is replaced. The Permanent Subcommittee on Investigations conducted an examination into the collapse of Enron Corporation in 2002, and discovered that when an Arthur Anderson senior partner raised objections to certain Enron accounting practices, he was removed at Enron's request, with no public notice.[15] The Enron investigation demonstrates that even senior auditors can be removed at the request of a client displeased with their accounting advice. Disclosure of an engagement partner's name and any replacement might discourage audit clients from inappropriately pressuring that partner or the audit firm to cooperate with its accounting requests, since any replacement would require public notice and, in turn, raise public questions about the reasons for the replacement.

To further support auditor independence, the proposal could be strengthened by requiring registered public accounting firms to file a special report on Form 3 within a few days of replacing an engagement partner in charge of a public company audit.

Still another reason to support disclosure of the engagement partner is that it would bring U.S. audit professionals in line with other U.S. corporate professionals and their international counterparts. The Federal Reserve already requires bank holding companies to provide the names of their audit engagement partners.[16] The European Union already requires its member states to compel audit reports to be "signed by at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm."[17] In addition, U.S. corporate officers already sign their names to a variety of opinions and reports filed with the SEC, including certifications regarding the accuracy of the corporation's financial statements, while a majority of corporate directors sign their corporation's Annual Form 10-K. Attorneys are required to sign a variety of documents filed with federal and state regulators and the courts. The PCAOB would bring U.S. audit professionals into closer alignment with other public company professionals by requiring public audit reports to identify the audit engagement partners responsible for the audit opinions presented to, and intended to be relied upon by, the investing public.

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[15] See, e.g., "The Role of the Board of Directors in Enron's Collapse," S. Hrg. 107-511 (May 7, 2002), at 5, 582-88.
[16] See Form FR Y-9C, "Consolidated Financial Statements for Bank Holding Companies," at 11.
[17] "Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on Statutory Audits of Annual Accounts and Consolidated Accounts," L157 OFFICIAL JOURNAL OF THE EUROPEAN UNION 87, 96, 98 (Sept. 6, 2006), http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:157:0087:0087:EN:PDF.

Requiring A Signature. The PCAOB 2011 proposal sought comment on whether, in addition to disclosing the name, an engagement partner should be required to sign the audit report for which the partner is responsible. Other countries such as the United Kingdom, Australia, and Taiwan already require signed audit reports.[18] In the 2013 proposal, the PCAOB described the comments it received in response to the 2011 proposal and determined that it would not require engagement partner signatures, primarily due to concerns about whether providing a signature would increase an audit partner's potential legal liability. Instead, the 2013 proposal concluded that providing the engagement partner's name and not signature would provide most of the same potential benefits while avoiding personal liability concerns.[19]

Since the goal of the PCAOB's work is to improve audit quality, rather than shield individual auditors from legal liability, it is troubling that the Board has focused so much of its analysis on liability concerns and has based its decision on whether to require signatures in large part on that issue. Its decision is also troubling since the 2013 proposal seems to acknowledge that requiring auditor signatures would create stronger incentives for audit quality.[20]

As one Board member has already pointed out:

> "The principle of accountability extends to most professionals in the United States who are clearly identified under federal or state law. For example, tax accountants sign tax returns, and engineers and architects sign their engineering and architectural designs. It is hard to understand why auditors should be held to a different standard."[21]

In addition, professions such as public accounting have long nurtured trust and respect by placing the reputation of their senior professionals on the line in support of their work. An audit report that carries the personal signature of a financial professional would not only strengthen audit quality, transparency, and accountability, but also help restore the personal responsibility critical to a trustworthy and respected accounting profession.

Disclosing Third Party Audit Participants. In addition to disclosing engagement partner names, the PCAOB proposal contains an important provision that would require audit reports to disclose information about certain third party participants that performed some of the audit work. This provision would shine needed light on a little known and difficult to monitor area of auditing, while significantly strengthening audit quality, transparency, and accountability.

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[18] See PCAOB Release No. 2013-009, at 3-4.

[19] See id., at 7-8 ("In the Board's view, this disclosure approach retains most of the potential benefits of a signature requirement, while mitigating some of the concerns, particularly liability concerns, expressed by commenters on the 2009 Release.").

[20] See, e.g., id. at 6 (The PCAOB Release states: "The ACAP report stated that '[t]he Committee believes that the engagement partner's signature on the auditor's report would increase transparency and accountability,'" referring to the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession, *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury,* VII:20 (Oct. 6, 2008), available at http://www.treasury.gov/about/organizationalstructure/offices/Documents/final-report.pdf.).

[21] Steven B. Harris, PCAOB Board Member, *Statement on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits* (Dec. 4, 2013) .

When investors see the name of a major auditing firm on an audit report, they may make certain assumptions about the quality of that audit based upon that company's reputation. It is often the case, however, that an accounting firm issuing an audit report has not performed 100% of the underlying audit work, but has instead delegated all or a portion of the work to one or more outside parties, including independent accounting firms, consultants, or specialists in particular areas. Financial statement users, who must determine whether to rely on an audit opinion, should have detailed information about the extent to which some or all of the work in a particular audit was outsourced to outside parties, the identity of those third parties, and whether the outside party is subject to PCAOB oversight.

The Permanent Subcommittee on Investigations has firsthand experience with the variability of audit work performed by different firms. For example, a year-long investigation conducted by the Subcommittee into illicit money flows involving banks in foreign jurisdictions uncovered a host of problems with foreign auditors, especially those operating in foreign jurisdictions with strong secrecy laws and weak anti-money laundering controls.[22] A number of foreign accountants contacted during the investigation were uncooperative or even hostile when asked for information. A PricewaterhouseCoopers auditor in Antigua serving as a government-appointed liquidator for Caribbean American Bank (CAB), for example, refused to provide copies of its report on CAB's liquidation proceedings, even though the reports were filed in court, they were supposed to be publicly available, and the Antiguan government had asked the auditor to provide the information to the investigation. The investigation also came across evidence of conflicts of interest and incompetent or dishonest accounting practices. In one instance, an accounting firm located in Dominica verified a $300 million item in a balance sheet for British Trade and Commerce Bank that, when challenged by Dominican government officials, was never substantiated. In another instance, an accounting firm approved an offshore bank's financial statements which concealed indications of insolvency, insider dealing, and questionable transactions. While the above examples involved foreign auditors reviewing the records of local banks and not U.S. publicly traded corporations, their record of poor performance and poor cooperation with U.S. inquiries provides clear evidence of the need for disclosure.

The auditing failures cited earlier provide additional evidence. Accounting scandals involving Laptop Financial Technologies, Ltd., Olympus Corp., Satyam Computer Services Ltd., and the unnamed companies audited by the Chinese firms sanctioned for refusing to cooperate with U.S. document requests all involve foreign auditors that share a common brand with large accounting firms in the United States, but may not use the same auditing standards, have the same familiarity with U.S. accounting requirements, or employ auditors with appropriate expertise. It is also not uncommon for a Big Four accounting firm to refuse to accept financial liability for faulty audit work performed by a foreign affiliate, even when sharing a common brand. Audit clients, investors, lenders, regulators, and others ought to be able to determine the extent to which affiliated or unaffiliated third parties are performing audit work, their identities, and the extent to which the public accounting firm shares financial liability for any problems arising from the third party audit work.

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[22] See "Role of U.S. Correspondent Banking in International Money Laundering," S. Hrg. 107-84 (Mar. 1, 2, 6, 2001). This investigation took place prior to the establishment of the PCAOB.

Another key issue is the extent to which a third party performing audit work falls under PCAOB jurisdiction, cooperates with PCAOB and SEC information requests, and undergoes PCAOB inspections to ensure audit quality. Auditors outside the United States may not have agreed to undergo PCAOB oversight, even if they audit a company that trades on a U.S. stock exchange or holds a U.S. license as a broker-dealer. Alternatively, the firm may have agreed to PCAOB oversight, but their governments may not permit PCAOB inspections or exchanges of information. In an ongoing investigation into alleged accounting fraud affecting U.S. investors in Longtop Financial Technologies, for example, China took years to agree to allow the Shanghai affiliate of Deloitte & Touche to provide documents to the PCAOB or SEC,[23] and has yet to allow similar document productions related to numerous other companies suspected of accounting fraud.[24] A 2007 PCAOB report also criticized Deloitte's quality controls and the manner in which it worked with foreign affiliates operating under a common brand, noting that Deloitte partners often had no way to properly assess whether a foreign affiliate's personnel were adequately familiar with American accounting and auditing rules.[25]

Audit clients, investors, lenders, regulators, and others should be able easily to determine whether audit work is being performed by auditors that operate outside of PCAOB oversight, are likely less familiar with U.S. accounting and auditing rules, have poor track records, or have a history of disciplinary problems or other misconduct.

The 2013 proposal addresses these concerns by requiring public company accounting firms to identify in each audit report the portion of the audit work that was performed by third parties, the estimated percentage – within ranges – of the audit hours each such third party performed, and the country where each such party was headquartered or performed the work. In addition, in one of the few instances in which the 2011 proposal was strengthened, the 2013 proposal would cover, rather than exempt from disclosure as in 2011, those audit participants "engaged by the auditor with specialized skill or knowledge in a particular field other than accounting or auditing."[26] This broader coverage, which would encompass consultants and financial analysts, is important, not only because such persons frequently perform important work in public company audits, but also because this approach eliminates an exemption that might have encouraged public company accounting firms to use non-accountants as a way to avoid the audit disclosure requirements.

The 2013 proposal would also require some, though not all, of the audit participants to be identified by name. In the case of independent public accounting firms that performed 5% or more of the audit work, the 2013 proposal would require each such firm to be named in the audit report. The 2013 proposal would apply that requirement to both affiliated and unaffiliated public

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[23] See, e.g., SEC v. Deloitte Touche Tohmatsu CPA Ltd., Case No. 1:11-MC-00512 (D.D.C. filed Sept. 8, 2011); In re Longtop Financial Technologies Ltd., Case No. 3-14622 (Nov. 10, 2011), http://www.sec.gov/litigation/admin/2011/34-65734.pdf; "Deloitte's Quandary: Defy the S.E.C. or China," New York Times (Oct. 20, 2011), http://dealbook.nytimes.com/2011/10/20/deloittes-quandary-defy-the-s-e-c-or-china/; "China to Hand Over Audit Documents," Wall Street Journal (July 11, 2013), http://online.wsj.com/news/articles/SB10001424127887324425204578600582169764600.

[24] See footnote 10, supra.

[25] "Report on 2007 Inspection of Deloitte & Touche LLP," PCAOB Release No.104-2008-070A, at 1, 3, 17 (May 19, 2008), http://pcaobus.org/Inspections/Reports/Documents/2008_Deloitte.pdf.

[26] See PCAOB Release 2013-009, at 15-16.

accounting firms, so long as the third party firm operated on an independent basis from the firm filing the audit report. Recent examples involving Chinese auditing firms that were affiliated with major U.S. accounting firms and approved financial statements for U.S. publicly traded corporations later accused of accounting fraud demonstrate the need for investors to know the names of both affiliated and unaffiliated public accounting firms when judging the value of an audit opinion. Investigatory bodies, such as the Permanent Subcommittee on Investigations, would also be assisted by public disclosure of the names of both affiliated and unaffiliated public accounting firms that worked on public company audits later found to be defective.

Emerging Growth Companies. The 2013 proposal requests comment on whether its disclosure requirements should apply to audit reports for emerging growth companies as defined in the Jumpstart Our Business Startups Act ("JOBS Act") of 2012. They should.

Emerging growth companies are relatively new publicly traded corporations with less than $1 billion in total annual gross revenues. Since those companies typically have limited track records, are excused from complying with a number of accounting rules that apply to other publicly traded corporations, are permitted to provide only two instead of three years of financial data, and often express doubt about their ability to continue as going concerns,[27] it is particularly essential that investors be able to evaluate the reliability of the audit opinions for their financial statements.

Excusing emerging growth company auditors from disclosing the engagement partners and third parties that conducted the audit work would weaken the incentives to conduct high quality audits of those companies, while also impeding the ability of investors and other financial statement users to evaluate audit quality. If the proposed disclosures named reputable audit participants, they could boost confidence in emerging growth companies' financial statements which otherwise might be viewed with suspicion. For those reasons, applying the disclosure requirements to emerging growth companies would meet the statutory standard of being "necessary or appropriate in the public interest," providing "protection to investors," and promoting "efficiency, competition, and capital formation."[28]

B. 2011 Transparency Measures That Should be Reinstated

While the current proposal merits support for improving audit quality, transparency, and accountability, it also merits criticism for removing or weakening important transparency measures in the 2011 proposal. Those provisions, which would require annual reports filed with the PCAOB to disclose audit engagement partner names and require audit reports to name all third party audit participants that performed substantial work, should be restored in the final rule.

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[27] The PCAOB determined that, as of October 2013, 55% of emerging growth companies registered with the SEC had an explanatory paragraph in the auditor's report on their most recent audited financial statements stating there was substantial doubt about the company's ability to continue as a going concern. PCAOB Release 2013-009, at 38.

[28] See Section 103(a)(3)(C) of the Sarbanes-Oxley Act, (15 U.S.C. §7213(a)(3)), as added by Section 104 of the JOBS Act, Pub. L. No. 112-106 (To apply a new accounting requirement to emerging growth companies, the SEC must determine that applying the requirement "is necessary or appropriate in the public interest, after considering the protection of investors, and whether the action will promote efficiency, competition, and capital formation.").

Disclosing Engagement Partner Names in Annual Reports. Public accounting firms currently file with the PCAOB an Annual Report Form listing each of the audit reports they issued during the covered year.[29] Unlike the 2011 proposal, the 2013 proposal no longer provides that it would amend the Annual Report Form to require public accounting firms to identify the engagement partner responsible for each of the listed audits. This disclosure requirement, which offers an inexpensive, sensible, and effective means for strengthening audit quality, transparency, and accountability, should be restored in the final rule.

Naming engagement partners in the Annual Report Form would increase transparency by providing a logical and convenient mechanism for financial statement users to retrieve information about the work assigned by a public accounting firm to its engagement partners over the course of a year. The information for each firm would appear in a single, easily accessible document, since the annual reports are posted by the PCAOB on its website. The report disclosures would enable audit clients, investors, lenders, regulators, and others to research and understand the work performed by a particular engagement partner, including by identifying the clients served by the partner, depicting the partner's overall workload, and making it easier to identify any conflict of interest or disciplinary issues. It would also facilitate oversight of audit firms as a whole by making available in one location all of the work assignments made to individual engagement partners during the year. Dropping the annual report requirement would not prevent financial statement users from compiling this same information on their own, but it would require them to engage in time consuming, costly, and duplicative efforts to reconstruct information that could otherwise easily be provided by accounting firms in their annual reports.

Naming engagement partners in the Annual Report Form would also strengthen audit quality and accountability by enabling more efficient and effective analysis of the audit work performed by individual partners and the audit firm as a whole. These disclosures would encourage engagement partners to provide consistent, high quality work, because knowing that the public can obtain the partner's name on an audit-by-audit basis is not the same as knowing that the public can more readily review every audit performed by that partner during the year. In addition, the disclosures would help ensure that public accounting firms assign audits to engagement partners with appropriate expertise and availability, and avoid conflicts of interest that might otherwise be hidden from public view. The disclosures would also promote auditor independence by highlighting any engagement partner replacements during the covered year.

Given the ease and low cost associated with listing engagement partner names in firms' annual reports, it is difficult to understand why the 2013 proposal dropped this disclosure requirement. The 2013 does not give any reason or explanation for doing so, does not cite a single 2011 comment letter opposing the annual report disclosure requirement, and does not describe any potential negative features or consequences from the proposed disclosures.[30] This transparency measure should be restored in the final rule.

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[29] See PCAOB Rule 2201; PCAOB Form 2 - Annual Report Form, http://pcaobus.org/Rules/PCAOBRules/Pages/Form_2.aspx; "Staff Questions and Answers Annual Reporting on Form 2," PCAOB, at 1, 2 (June 17, 2011), http://pcaobus.org/Registration/rasr/Documents/Staff_QA-Annual_Reporting.pdf (stating "[e]ach registered firm must provide basic information once a year by filing an annual report on Form 2."). The report must be filed by June 30 of each year.

[30] See PCAOB Release 2013-009, at 33-34.

Disclosing Third Party Audit Participant Names. The 2013 proposal also weakens third party audit participant disclosures compared to the 2011 proposal, allowing for a larger portion of third party audit participants to remain unidentified, creating incentives to use non-accounting firms to perform audit work to avoid disclosure obligations, and reducing overall transparency. Those weakening changes should be reversed.

While the 2013 proposal reduces transparency in several ways,[31] one ill-advised change from the 2011 proposal is its decision to no longer require disclosure of the name of any third party audit participant other than an "independent public accounting firm," even if the unnamed party performed 5% or more of the audit work. For example, if the third party were a firm that was organized as a consultant or as a company that specializes in financial analysis, or if it were an individual who is not a certified public accountant, the 2013 proposal would allow that party's name to be concealed behind a general statement that the participants were "other firms" or "persons not employed by our firm." The result is that the 2013 proposal would allow, for example, the auditor filing an audit report to use a consulting firm that has a poor disciplinary record or is the subject of ongoing litigation without having to disclose the firm's identity, even if that consultant performed key audit procedures.

The 2013 proposal contains little justification or explanation for taking this narrow approach over the broader approach taken in the 2011 proposal, which called for identifying by name all third party audit participants that exceeded the reporting threshold. The 2013 proposal simply asserts that the "names of other types of companies or individuals not employed by the auditor may not be as meaningful as the fact of their participation and the location where the work was performed."[32] That analysis fails to recognize that disclosing the names of those audit participants would make it possible to learn whether any were suspected of wrongdoing, had been sued or disciplined for substandard work, or were operating with inappropriate conflicts of interest. If, on the other hand, the audit report named reputable firms or experts, the disclosures could reassure financial statement users about the quality of the audit. Omitting the names would hinder all such evaluations. The proposal's analysis also fails to recognize that making the names public would provide the same type of encouragement for the named parties to engage in high quality work as it would for public accounting firms.

The 2013 proposal does not estimate how many audit participant names would be omitted under its more narrow approach, or explain why non-accounting firms in particular should be exempted from identification. The increased complexity of the rule might also lead to audit firms making inconsistent decisions about which third party participant names to disclose. The likely result is that audit clients, investors, and other financial statement users would be left in the dark about the identity of many third party audit participants, including those that performed more than 5% of the audit work. Since the filing auditor already knows the names of all of its

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[31] For example, the 2013 proposal raises the threshold for disclosing third party audit participants from 3% to 5%, stating that any third party firm or individual that contributed less than 5% of the audit work may be aggregated and listed simply as "other firms" or "other persons not employed by our firm." PCAOB Release 2013-009, at 17. It also permits accounting firms to estimate the percentage of audit work performed by a third party audit participant using specified ranges rather than provide a specific percentage. Id.

[32] PCAOB Release 2013-009, at A3-11.

audit participants, the 2013 proposal does not and cannot explain how omitting the names of those that exceeded the reporting threshold would save time, money, or effort.

Limiting the disclosure of third party names to public accounting firms would not only open a huge disclosure loophole and remove an incentive for the unnamed parties to conduct high quality work, but may also create an incentive for public accounting firms to employ non-accountants whose names can be concealed. This unintended consequence of the 2013 proposal could result in public accounting firms losing business to other types of firms, such as consultants and financial analysts, that have less accounting expertise, will be subject to less public scrutiny, and will operate outside of PCAOB oversight and disciplinary authority. This outcome could be avoided by reviving the 2011 requirement that all third parties exceeding the reporting threshold be named in the audit report.

The stronger disclosure provisions for third party audit participants in the 2011 proposal should be reinstated to the final rule to shine needed light on a critical area with direct impact on audit quality, transparency, and accountability. All third party audit participants performing 5% or more of the audit work should be identified in the audit report by name, country, and an estimated percent of the audit hours they performed. This information is already known to the public company auditor, would cost little to report, and would provide important information to financial statement users reliant on public company audits, including audit clients, investors, lenders, regulators, and investigatory bodies like the Permanent Subcommittee on Investigations.

In fact, rather than weaken the 2011 proposal, the final rule should strengthen its transparency requirements by requiring the public accounting firm issuing the audit report to disclose the nature of the work performed by each third party audit participant performing 5% or more of the audit, and whether each such third party was subject to PCAOB oversight and inspection. Given the variance in auditor expertise, resources, and reputation, knowing what aspects of an audit were performed by a particular third party and whether that party fell within the ambit of the PCAOB may be critical to assessing audit quality.

Thank you for the opportunity to comment on this matter.

Sincerely,

Tom Coburn

Tom Coburn, M.D.
Ranking Minority Member
Committee on Homeland Security
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January 31, 2014

PCAOB Rulemaking Docket Matter No. 029
IMPROVING THE TRANSPARENCY OF AUDITS: PROPOSED AMENDMENTS TO PCAOB AUDITING STANDARDS TO PROVIDE DISCLOSURE IN THE AUDITOR'S REPORT OF CERTAIN PARTICIPANTS IN THE AUDIT

Members of the Board:

Thank you for this opportunity to respond. This letter summarizes my views on Docket Matter 029 and for your consideration I offer an additional observation in the **CONCLUSION AND SUMMARY**. You are far down the road on this proposal, but I hope these comments are helpful.

The proposal to disclose names of partners relies on the power of pride and personal reputation to move partners to a higher level of audit effectiveness. For others whose identity will be disclosed, the proposal provides names of parties who assist in audits, relationships now normally available only through litigation and media coverage of failed audits.

It is not unreasonable to believe that a partner and other participants will, on average, take their involvement more seriously and do a better job if their names are published.

Ideally, investors will learn more about auditors and others who contribute to audit conclusions, and, subsequently, investors make more sound decisions when they vote to ratify selection of the audit firm.

If it works, the proposal brings auditors, investors, and other parties contributing to the audit, closer to common objectives. It can help produce a fundamentally different relationship than now perceived to exist among all parties interested in audit outcomes.

The anticipated new relationship can have two very significant impacts:

1) The relationship can counter a long existing psychosomatic affiliation between management and auditors that aligns their interests. The closeness of the two is promoted by reliance on each other for sustaining their commercial bond, resting on who writes the checks, frequency of

contact opportunity, career evolution and many others, even as teammates in securities litigation, pursuit of protected legal environment and resolution of conflicts of interest.

2) The new relationship can also jar individual auditors out of mindset that what they do is somebody else's problem. This tendency results cumulatively from the socialization of errors within large partnerships, the multidisciplinary objectives of accounting firms, the limited liability financial structure of partnerships and confidential settlement of litigation rather than defense of positions.

Since the year 2000 there have been disturbing discoveries of financial reporting issues, many of which had grown unseen for extended periods, surprises undiscovered by external audits. The issues continued after the Sarbanes-Oxley and some would say the surprises are even more severe and threatening to the general economy. Also, the work of the Public Company Accounting Oversight Board in its reviews shows high rates of failure to support audit opinions issued.

However, solutions based on changing human nature usually have disappointing results. This proposal is little more than a plea for all to do a better job-- the "I'm going to tell your Mother!" threat. Arguing against it does not suggest approval of status quo, only disappointment in the mismatch of solution with the problem. Evidence is weak that this solution successfully matches the problem, even evidence that the problem is defined appropriately

The proposal is somewhat like campaigns in the 1950's and 1960's for drivers to be more careful as a means to reduce traffic deaths; but, deaths continued to climb. Trauma from heads and chests hitting something hard is a direct cause of death; driver behavior is an indirect cause but only in some accidents. Only later did someone decide seat belts would work. Traffic deaths rates per 100,000 drivers have been reduced by 2/3s after the first seat belt law was passed.

This proposal is not the "seat belt "solution. This proposal is a small tentative step which will be costly; even then, it will completely fail unless accompanied by other developments, some of which are identified in the proposal document.

DATABASES

Names of partners and other participants are useful only when they can be tied to events, trends or other indicators of reasonable expectations about future performance.

The **first big step required** is the development of meaningful, reliable data that fairly and completely present facts about audit partners and other participants. Such databases do not exist today and there are many impediments.

Information upon which the hopes of this proposal rest is processed slowly through a fine filter. PCAOB reviews, State Board of Accountancy disciplinary proceedings, confidential securities litigation and even settlements and criminal investigations all can take years; and these years of delay often occur after years of undiscovered misbehavior. Resolution of each can result in complete concealment of the names, data then unavailable to the databases.

Today, the PCAOB agrees to treat the names of firm partners as confidential information. Even for those incidents where the PCAOB determines opinions issued are not supported by the audit work, the names of the audit partners and other participants are withheld; even identity of the company not properly audited is withheld.

Perhaps **the most helpful information would be about those financial statements which would have been wrong except for the principled audit partner who prevented the error**; no one records or reports this statistic; it is unavailable.

Among the major firms, there are probably five thousand partners authorized to sign audit reports, and the annual turnover rate among them is probably at least ten percent. Hopefully, the turnover is weighted toward those who prove to be problems. The database providers must continuously find information on several thousand churning people for which much of the most critical data, for this proposal, is unavailable or delayed for years.

The proposal is unclear about who is responsible for the databases and who will pay for them. The database developers must determine what information, sources, common measurements, distribution, quality controls, maintenance, storage and many other basic issues. No doubt, databases can be developed, but the challenge will be the quality of information and its currency. But when it is available, it will **be a source for tens of millions of investors to know and judge audit partners, even though only one of three can name their Congressional representative, and probably fewer the names of the CEO and CFO** of companies in whom they invest. This is not a criticism of investors, only a practical observation.

COST

The proposal will cost. Professional fees will be paid to accountants and lawyers for compliance with rules and review of wording for disclosure and consents. The cost will be higher in the first year, spikes for years when changes are made in the audit firm or partner and smaller for the routine recurring status quo years. Partners must rotate every five years so spikes are built-in. Similar costs will be incurred by other parties who participate in the audit. Costs will be larger for big companies than for small. I doubt the availability of empirical evidence of these costs that you seek.

My guess is that the annual cost for public entities will be aggregate less than $500 million per year. This guess is based on what is reported to be the average audit fee for public companies in the U. S. by FEI and my assumption that this new reporting will cost each company an additional 1% to 2% of its audit fee depending on whether it is a year of change or status quo for partner and other parties. My estimate is based on fifteen thousand public companies, but there are many other entities to which the proposal may apply, once defined.

My estimate does not include cost of developing databases or the charges that will be made to users of such databases; also, it does not include any assumption for insurance and other costs that may be purchased by audit partners individually or by other parties whose names will be reported.

Virtually all of the costs will be borne by common shareholders. Those doing the work will not do it for free; they will charge the public company. It is unrealistic to believe public companies will increase charges to their customers to cover theses costs. Therefore, the costs will flow to earnings of the reporting entity and its stock price. Economists can estimate, then, whether the costs should be magnified further through the leverage of earnings multiples.

Many will conclude, not without support, **this proposal is a tax imposed on shareholders**. That may not be bad if it can be counted upon to offset those costs with some identified benefits.

LIABILITY

Audit partners, primary audit firms and issuers will have no more exposure to liability; they are the targets now when something goes wrong, as they should be if they were responsible for causing, or negligent in not finding, problems that should have been discovered. The proposal will not change the obligation of the audit firm to support its partners who find themselves in these predicaments. Harmed investors are always going to pursue the firm, not just the partner. The proposal does nothing to reduce or increase firm liability.

However, for other participants, the disclosure of their names and audit role may increase liability. The U. S. Supreme Court **Stoneridge** decision does not condone aiders and abettors, but it does prevent investors from pursuing them, using language like ***"… Respondents had no duty to disclose; and their deceptive acts were not communicated to the investing public during the relevant times. Petitioner, as a result, cannot show reliance upon any of respondents' actions except in an indirect chain that is too remote for liability…"*** Thus, only the government can pursue unidentified aiders and abettors.

However, if this proposal results in "duty" and "communication to the investing public," the chain is more direct and less remote. The new conditions open other participants to private litigation. If so, conditions change for other parties.

I think your interest should be ***transparency***; *liability*, that of others. Both **Stoneridege** and **Janus** were close decisions with five Justices deciding the cases. I do not think even the majority, or Congress, would want the PCAOB to become aiders and abettors. For other aiders and abettors, at least the government can go after them. The commitment in the proposal document to reconsider disclosures later if court decisions tend to hold partners and other participants liable is not a good policy for you.

Questions then arise about this proposal. Definition of "other participants" becomes critical. If a party falls under the definition, the proposal requires that they be disclosed. If the other party will not consent to being disclosed as a participant, the auditor must ask, "Why not?" Is the "other participant" assisting in a deception or are they just being careful? Can a primary auditor overcome the concern and still issue a clean report? Does the new rule, then, still require disclosure of the other participant, along with disclosure that the other participant would not consent? If investors are to be provided a ***transparent*** picture, the answer is "Yes." Primary auditors' work may increase, relying less on other parties who may refuse to participate, let alone be named. The PCAOB may want to further study this type of development on audit costs and effectiveness, and the objective of making the audit more ***transparent*** to investors.

OTHER QUESTIONS RAISED

Most of the questions you have asked are addressed above, but for others not addressed, let me comment briefly on three of them.

1. **Promotion of competition:** The proposal will not have a significant impact on competition among firms that do audits. It will not relieve the imbalance in the market that results from concentration of audits in four major firms, nor reduce market restrictions that result from conflicts of interest due to non audit work done by firms.

   If the concerns expressed above in the **LIABILITY** section about **Stoneridge** are valid, the proposal may restrict the availability of "other participants."

2. **Form 2:** Your question # 21 asks whether Form 2, or some other report, should be used to report the same information about the audit partner and other participants that auditors will now put in their audit reports. No doubt, some would find Form 2 reporting useful, but I think at present the cost of doing it would outweigh any benefit. Information in Form 2 and other PCAOB forms is static making it difficult to review and some information is restricted under firm confidentiality requests, which, if nothing else, slows the process.

   Most investor questions can be more easily answered by reviewing public filings by the companies in whom they invest. Information about the audit partner and other participants will be in the company report if your proposal is adopted.

   If you are considering that the PCAOB develop the database of information for investors, then you must upgrade the system you have to make it comprehensive and navigable.

   Today, the U. S. firm's do not report on partner disciplinary matters through the Form 2, but choose to use Form 3. The Big 4 firms have disclosed little, if any, of this information on Form 2. The Form 3s disclose information, but the information is required **only for matters affecting issuers**, not for the audit practices in general. In fact, fewer than forty Form 3s have been filed with respect to legal matters for the Big 4, some of those reflecting updates on disciplinary issues and settlements on cases earlier reported. Very few partner names are included in these reports and several of those are quality review partners or accounting advisory partners, not report signing partners. Where there is disclosure of partner names concerning an incident about which investors might have an interest, a review of the cases only confirms the delay that happens between the incident and its being reported, five years or more in most cases.

For non U. S. firms affiliated with the Big 4, reporting is even sparser. The Form 3s again are the primary reporting document for legal matters and the common disclosure is to report that, pursuant to some unidentified incident for which the U. S. Securities and Exchange Commission has demanded documents, the foreign audit firm will not comply because its government considers it illegal to provide the information. No partner names, no company names are given. Investors can only wonder, "What is that about?"

You may be much further in your consideration of how to identify, gather and upgrade this information than is evident. If not, you have much work to do before this proposal becomes effective. Some reconciliation is needed between the financial statement reporting problems reported in news media and the scantiness of related information in reports filed with you.

3. **Broker dealers and EGCs:** You have several questions about Emerging Growth Companies and brokers and dealers and the impact and usefulness of this proposal for audit of those entities. If you decide the information about audit partners and other participants is useful and necessary, I can think of no overriding reasons that audit reports for these entities should be excluded. The costs are not disproportionately harmful to these entities, and investors will find similar benefit regardless of their portfolio composition.

CONCLUSION AND SUMMARY

Nothing is inherently wrong with the proposition that information sought in this proposal will help investors. However, I do not understand why it is necessary to go through the rule-making process for you to begin requesting and reporting this information. If you change the auditor's report, then a rule is necessary. But, I believe the audit report will then be distracting from the question most of us want answered***: Are the financial statement right?***

An intermediate action, then, would be to develop and expand the information in your reporting requirements, cease honoring confidentiality requests and enhance and streamline the availability of information so that investors can easily get all the information they need about individual auditors and others from the PCAOB. That is the **quickest, easiest and cheapest way to achieve success** for objectives of this proposal.

In the meantime, this proposal has taken much effort and energy, while other developing trends need attention. I think the **significance of audit practices to partner income and wealth was, at one time, the buckle for the "seat belt"** discussed earlier in this letter. But, understandably, firms quickly became limited liability entities when permitted to do so in the mid 1990s; and your Form 2s show that, since 2010, the percent of firm revenues for audits of "issuers" has declined from 28% of total Big 4 revenue to 24.5%. For one of the firms, it is now only 17%. The trend for each firm is down for audit. Form 2's also show the rate of increases in non accounting professionals is more than twice that of accounting professionals. Big 4 firms consulting practices are expanding much more rapidly than audit practices, some through acquisitions. Compounding disparity in growth rates can be overwhelming. ***Overtime*****, it is not likely that audits will improve as audit practices of these firms become 20%, then 15%, then…**

If true, conflicts of interest, now being rationalized or ignored, will increase; capital investment and research for audit practices, already being redirected, will decrease; market options will become more restricted. Partners' interest in the business of audit and for improving audit effectiveness will decline. When does the title *"independent public accounting firm"* become misleading?

I respect the decision of any business to be what it wants to be and do what it wants to do. But, investors need, the market needs, another "seat belt." It is unrealistic and unfair to lay this responsibility off to investors' review of audit partner personnel files.

I appreciate your efforts in addressing these challenges.

Sincerely,

Gilbert F. Viets

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March 10, 2014

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Rulemaking Docket No. 29 – PCAOB Release No. 2013-009:
Proposed Auditing Standard – Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

Dear Secretary:

My General Comments on the above-mentioned proposed auditing standard (the "reproposal") and my responses to the questions asked in Section VII, *Questions for Commenters*, follow:

General Comments

The reproposal itself does not support or convincingly argue for the disclosure of the engagement partner's name, particularly when the reproposal speculates on the need for much more information than just the name, and its possible future usefulness by investors and other financial statement users. In addition, when two of the Board members[1] raise significant concerns and many probing questions regarding the value of certain of the reproposal's disclosures, it is apparent that not all of the PCAOB parents love their own baby. There are many other Board projects that would improve transparency and "audit quality,"[2] but this reproposal is not one of them.

With regard to the engagement partner's name and other participants in the audit, other than repeatedly saying that investors will find the new disclosures "useful" and "valuable," the reproposal does not say exactly how investors will use these disclosures in their buy, sell or hold investment decisions, or how other users, such as creditors will use the new disclosures in lending decisions. The disclosures are backward looking and old news, meaning that investors and lenders do not know if the engagement partner or other participants are involved (and to what extent) in the current audit, or will be involved (and to what extent) in later audits. I believe investors and lenders want company and financial information as quickly as possible; they have very little or no interest in stale information.

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[1] Statement on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits; Jeanette M. Franzel and Jay D. Hanson; Dec. 4, 2013.

[2] See Public Company Accounting Oversight Board Strategic Plan – 2013-2017, November 26, 2013, *Near-Term Priority: Audit Quality Indicators*.

Having served on the board of directors and chairman of the audit committee of a New York Stock Exchange company, and having attended many stockholders meetings as a Board member and investor, not once had any investor asked for the names and locations of the other participants in the audit, nor the name of the lead/engagement partner. Once a year, shareholders are normally introduced to the engagement partner (or a designee) at the issuer's annual shareholder's meeting where the partner answers stockholder questions and (if they wish) make a statement. Over many years, shareholders have shown no interest in knowing the curriculum vitae of the engagement partner or the names (percent of involvement and headquarters' office location) of the other participants in the audit, either to make an investment decision or when ratifying the accounting firm. Shareholders properly rely on the oversight of the audit committee and the board of directors to select the auditor.

Outside of the annual shareholder's meeting, to my knowledge, neither financial analysts nor investors have directly communicated with management or a board member asking for this specific information. If they did and management or the board member responded, then such "selective disclosure" (assuming it is considered material) would need to be disclosed to the SEC or to the public, e.g., through a press release.[3] I could find no recent Form 8-K filings or other public disclosure with this specific information.

The papers and articles included in Section V., *Economic Considerations*, are another concern in that they give little or no credence to the discussion in the reproposal regarding the need for the disclosures. Moreover, certain of the conclusions and results reached in these papers and articles are highly questionable; only two of seven papers I read were blind peer reviewed and none of the conclusions had been validated by replication.

Further, the belief that the disclosure of the engagement partners name would result in a positive behavioral modification by increasing that partner's sense of accountability and thereby "do a better audit" is wishful thinking and is unfounded.

The reproposal presents no concrete evidence to support the anticipated future usefulness and value to investors or creditors of the required audit report disclosures; nevertheless, to address the Board's concerns regarding uninspected firms, the disclosures in any final auditing standard should be targeted only to the following situations:

- when the audit work is performed by firms in jurisdictions where the PCAOB is prevented from inspecting U.S. related audit work, and
- when there are other participants – who prepare or issue an audit report, or play a substantial role in the preparation or issuing an audit report – that are not registered with the PCAOB.

This focused disclosure should be in a new and targeted PCAOB form, and not in the auditor's report. The participation of all other firms need not be disclosed, except (of course) when the principal auditor makes reference to the audit of another auditor in the audit report.

Amplification of these General Comments and additional comments and suggestions follow:

Responses to the Questions for Commenters

1. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information?

[3] See Regulation FD.

Engagement Partner's Name

The requirement to furnish the engagement partner's name in the audit report would not provide any useful or valuable information to investors and other financial statement users for the following reasons:

1. The reproposal itself argues that the engagement partner's name may possibly be of some value, but only if investors are furnished more information in the future, and that just disclosing the engagement partner's name is of limited value to investors. The reproposal stating that "[t]he Board is cognizant that, initially at least, disclosure of an engagement partner's name, without more, might provide limited useful information…."[4]

2. The reproposal speculates about the future importance of the disclosure, for example (emphasis added below):

   - "The Board believes that despite the potential limited initial usefulness, public disclosure of the current engagement partner's name is a first and necessary step in the development of the type of robust information sources about engagement partners … that would be useful to investors and other financial statement users."[5]
   - "[I]nformation about who engagement partners are would be valuable, and … would become more so over time."[6]
   - "[T]he disclosure of the name of the engagement partner, combined with other information compiled over time, could enable investors and other financial statement users to research the number, size, and nature of companies and industries in which the partner served as engagement partner."[7]

   Of course there can be no guarantee that the compiled database the Board envisions will ever be assembled and that at some future date it will be "robust." This argument for disclosure of the engagement partner's name is built on the unsupported supposition that "if you build it [that is, a robust database, then investors] will come."[8]

3. The reproposal further underscores the very limited usefulness of disclosing the engagement partner's name when it asserts (emphasis added below):

   - "Because the financial statements and the auditor's report are retrospective, disclosure of an engagement partner's identity in the auditor's report provides information only about the most recent period's audit of the financial statements. It does not provide information about the identity of the next period's engagement partner, which may be of most interest to shareholders, such as in ratifying the company's choice of registered firm as its auditor."[9]

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[4] PCAOB Release No. 2013-009, at 11 [hereafter 2013 Release].

[5] 2013 Release, at 12.

[6] 2013 Release, at 7.

[7] 2013 Release, at 11.

[8] 1989 movie: *Field of Dreams*.

[9] 2013 Release, at 13.

- "[I]nformation about the engagement partner … could be valuable to investors in making investment decisions … if they are asked to vote to ratify the company's choice of registered firm as its auditor."[10] See discussion under Question 2.

4. The reproposal provides examples of the types of "other information" that may possibly be compiled and available to investors:

   - "[W]hether the engagement partner for a particular audit has any … SEC or PCAOB disciplinary history."[11]
   - "Additional information also could become available in readily accessible formats about private litigation in which the individual was a defendant in his or her capacity as an engagement partner."[12]

   Here, the reproposal presumes that either the investor will investigate SEC, PCAOB and other public sources for this disciplinary information and private litigation, or obtain it from a third party.

5. The reproposal mentions that "the identity of the engagement partner during periods involving a restatement or issuance of an audit opinion with a going concern modification"[13] would also be of importance to investors.

   - Short of evidence of an audit failure, I fail to see how a restatement or a going concern explanatory paragraph is relevant in evaluating an engagement partner by investors. This linking of a restatement or going concern modification to a low "audit quality" engagement partner incorrectly assumes (a) there is something inherently wrong with the engagement partner, and (b) all other audits in which that engagement partner is a participant are tainted in some way; for example, the audits were not in accordance with PCAOB standards and/or the financial statements are not in conformity with GAAP.

6. The reproposal speculates that "[i]nformation also could become available about the engagement partner's education, honors, awards, service on professional and public bodies and publications."[14]

   - This background information about the engagement partner may be "nice to know," but has questionable usefulness to an investor or creditor in making a buy, sell or hold, or lending decision.

In sum, the reproposal itself persuasively argues the uselessness of the initial disclosures of the engagement partner's name to investors, and speculates about its future value.

Information about Other Participants in the Audit

I do not believe that the requirement to furnish information about other participants in the audit would provide any usable information to investors in their investment analysis of equity and debt for the following reasons:

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[10] 2013 Release, at 3.

[11] 2013 Release, at 11.

[12] 2013 Release, at 12.

[13] *Id*.

[14] *Id*.

1. It is difficult to understand exactly how investors will factor the required disclosures information into any technical or fundamental analysis regarding how many dollars to invest in a company, how much of the investment to sell, when to buy, when to sell, or just to hold. These decisions are especially difficult given the historical, after the fact, nature of the information to be furnished in the auditor's report. Investors do not know if the other participants are involved in the current audit, or will be involved in next year's audit, and to what extent.
2. There is no anecdotal or empirical evidence that demonstrates that information about other participants has any direct or indirect correlation with a successful investment or lending strategy.

How might investors and other financial statement users use the information?

This is the key question.

The reproposal never does answer it other than to say investors want it, and as mentioned above, the reproposal says that if the information is provided in the auditor's report, and then enhanced with other public information, then sometime in the future investors could use it.

The surveys of the (a) Chartered Financial Analysts Institute ("CFA") and (b) Investor Advisory Group ("IAG")[15] did not go far enough and ask this very question of those surveyed, i.e., "how will you use this information"? The surveys did not ask -- how will the information factor into your investment analysis of issuers? What weighting will such disclosure have in your analysis and in the overall evaluation of a company? Where does this out of date information fall in the range of data ordinarily used by investors (near useless or absolutely necessary)?

The reproposal supports the disclosure of other participants in the audit by citing the 2010 survey by the CFA where 91 percent of respondents agreed that the "identities and specific roles of other auditors should be disclosed."[16] Moreover, a survey by a task force of the Board's IAG found that 70 percent of the "investors surveyed … said that they would like to know the degree of involvement in the audit of the firms that are not signing the auditor's report."[17]

Interestingly, the CFA survey also shows that 82 percent agree that the method by which the auditor determines and assesses materiality should be disclosed, and 66 percent would like to see the level of assurance actually achieved in the audit.[18] I believe the disclosure of the various levels of materiality used by and actually achieved by the auditor of an issuer will compromise the audit, and suspect that the Board does not consider that this level of transparency into an audit is needed or desirable. These requests do not give me confidence that those surveyed really understand the audit process.

Historically, those surveyed by the CFA and the IAG did not have the disclosures about other participants suggested in the reproposal; have never asked for it in the past and presently there appears to be no groundswell asking for it. Investors cannot demonstrate that the lack of the disclosures about other participants had weakened their prior technical or fundamental analysis of issuers.

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[15] 2013 Release, at 9.

[16] *Id*.

[17] *Id.*

[18] See *Independent Auditor's Report Survey Results* (March 2010), at 3, 14 and 20.

The auditing literature says that the auditor must use professional judgment "in deciding … whether he may serve as principal auditor and use the work and reports of other independent auditors who have audited the financial statements of one or more subsidiaries, divisions, branches, components, or investments included in the financial statements presented …."[19] Thus, in providing the reproposal's suggested disclosures about other participants, the Board is asking investors to question the professional judgments of audit firms. In my view, most investors are ill-equipped to question professional judgments.

In the words of Chairman Doty: "the PCAOB may not be able to inspect the [audit] firm, such as in China or a handful of countries in Europe, in which case investors may justifiability want to factor those risks into their conclusions about the <u>reliability of the audit report</u>"[20] (emphasis added).

This statement tells financial statement users that there is a risk regarding the reliability of audit reports when there are other participants in the audit and those other firms are in jurisdictions where the PCAOB is prevented from inspecting U.S. related audit work, or there are other participants – who prepare or issue an audit report, or play a substantial role in the preparation or issuing an audit report – that are not registered with the PCAOB.

I agree and suggest that the reproposal's disclosures be targeted to just these situations. This disclosure should be in a new and targeted PCAOB form (see Question 22) and not be embedded in the auditor's report. Consequently, as there is no concrete evidence to support the anticipated usefulness to investors of the reproposal's required audit report disclosures, disclosures about the participation of <u>all other firms</u> need not be disclosed (except when the principal auditor makes reference to the audit of another auditor in the audit report).

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

The reproposal explains that "[b]ecause of the engagement partner's key role in the audit, the Board believes it is appropriate when shareholders are asked to ratify the company's choice of the registered firm as its auditor to be as well informed as possible about the leader of the team that will conduct the audit. Public identification of the engagement partner would help serve that end."[21]

The reproposal argues that there is "value in learning the identity of the engagement partner" …. [and that] "the engagement partner's expertise would be relevant in ratifying the company's choice of a registered firm as its auditor."[22]

These arguments are not convincing. The reproposal implies that not only the audit firm be ratified, but the engagement partner and other participants should also be ratified as a "package." It suggests that shareholders will either ratify the package or not. In short, the disclosures will serve only to confuse investors as to whom they are voting for.

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[19] AU 543, *Part of Audit Performed by Other Independent Auditors*, pars. 1 and 13.

[20] Statement on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits by James R. Doty, Chairman; Dec. 4, 2013.

[21] 2013 Release, at 14.

[22] 2013 Release, at A3-3.

As mentioned in response to Question 1, the reproposal points to another limitation on the usefulness of disclosing the engagement partner's name stating that "[the auditor's report] does not provide information about the identity of the next period's engagement partner, which may be of most interest to shareholders, such as in ratifying the company's choice of registered firm as its auditor."[23] In addition to this limitation, the other participants in the audit may not be involved, or involved to a different degree, with both this and next year's audit, but shareholders will not know this.

The auditors are normally appointed by the board of directors on the recommendation of the audit committee, and the appointment may be subject to shareholder approval. Unless privy to all the information that the audit committee has, the requirement for an accounting firm to disclose in the audit report the name of the engagement partner and information about other participants in the audit would not provide any important and useful information to shareholders in their decision to affirm the board of directors recommendation.

Under the NYSE rules, among many other duties, the audit committee is required to review the auditor's work throughout the year and evaluate the auditor's qualifications, performance and independence, including a review and evaluation of the lead partner. [24] [25]

There are many considerations in selecting an audit firm that are just as or more important than knowing who the engagement partner is. For example: the audit strategy of the accounting firm; the timing of the audit; the rates charged by professional and total fee; the firm's industry experience, expertise and specialists; its international representation; the need for tax and other services; partner, manager and staff qualifications; independence matters and possible conflicts; and so forth.

Shareholders have shown no interest in knowing about the engagement partner or other participants when ratifying the accounting firm – they properly and historically relied on the oversight of the audit committee and the board of directors in considering the ratification of the independent registered public accounting firm.

How will investors use (1) the name of the engagement partner, the (2) the name, location, and the extent of participation (measured in hours) of certain other independent public accounting firms, and (3) the location and extent of participation of certain persons not employed by the auditor who took part in the most recent period's audit?

I could not find any study or know of any other information concerning exactly how investors or creditors can use these disclosures in their technical and fundamental analysis relating to buy, sell or hold, or lending decisions.

Under the reproposal, the audit report would state:

> "The estimated portion of the total audit hours attributable to audit procedures (alternatively, "the audit") performed by ABC Audit Firm in our audit was X% to less-than-Y% [or alternatively X%]."

While disclosing the hours, etc. is a practical solution to the metric problem, investors reading the information may be perplexed since the disclosures have no connection to any other information

[23] 2013 Release, at 13.

[24] NYSE Rule 303A.07(b).

[25] See Regulation S-X Rule 2-01(f)(7)(ii)(A) for the definition of lead partner.

relating to the audit that is available to investors. Therefore, the above disclosure should be expanded to say that this information:

(a) is unaudited;

(b) does not address the differing economic, regulatory and legal environments in which the various other participants operate;

(c) is presented solely to give the reader an indication, presented in a percentage range, of the effort involved by those other participants to the aggregate effort; and

(d) has no bearing on or relationship to any other disclosures in the

(1) audit report (AU 543.07 disclosures concerning reliance on other auditors), and

(2) proxy statement (Item 9 of Schedule 14A) and/or Form 10-K (Item 14).

The reproposal deletes the last sentence in AU 543.04 and amends AU 508 to require the audit report make "[a] statement that the auditor is responsible for the audits (or audit procedures) performed by such firm(s) and persons and has supervised or performed procedures to assume responsibility for the work in accordance with PCAOB standards." I suggest changing "supervised or performed" to "supervised and performed."[26]

3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

I do not believe that a database[27] will be assembled by a third party on the speculation that investors will find it valuable and subscribe to it. Further, in looking for support for the utility of the engagement partner's name (or other information about that partner), I could not locate any database containing the information suggested in the above question in those countries that currently require the engagement partner's name (e.g., Germany, France, Luxembourg and The Netherlands). This may be due to the fact that investors have built their own database, a third party's database is not advertised or is available on-line, my search strategy and foreign language skills were deficient, or there are no such databases (confirming the non-utility of this information).

Introducing a third party in collecting public data about the engagement partner adds complications and questions for investor and lender subscribers, for instance:

- Did the third party properly collate the data?
- Is the third party responsible for the data's integrity? Or has the third party insulated itself from litigation stemming incorrect or misleading information?
- Is the data up-to-date? Will the database capture in real time CPAs moving in and out of the engagement partner designation including promotion, demotion, rotation, marriage,

[26] See AU 543, pars. 4, 5 and 12.

[27] Presumably this database would contain, at a minimum, the public information mentioned in the reproposal about the audit firm, engagement partner, industry expertise, association with restatements and going concern modifications, disciplinary proceedings, litigation, and other public data.

movement to another firm, retirement, SEC suspensions and reinstatements, health, death, etc.?

- Is the collected information really meaningful since the data is immediately stale? For example, how will investors using public information determine if last year's engagement partner will be involved with this year's audit (and to what degree)?
- How much will it cost to access the data from the aggregator (surely no one will be assembling this other information without compensation)?

a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

Seven of the academic papers (aka studies) discussed in the reproposal reach various conclusions regarding the usefulness of the suggested disclosures. This letter will not attempt to discuss the many questionable conclusions reached in certain of these papers, but it is noted that five of the papers have not been blind peer reviewed[28] and that none of the conclusions in any of the papers have been confirmed by replication.

I trust that these academic papers will not contribute to the basis for conclusions of any final auditing standard, since I do not believe that auditors should be field testing their questionable and diverse findings.

b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

Audit committees, when functioning in their oversight role, determine the appropriate "benchmarks" with which to measure their engagement partner's strengths and weaknesses. They already know the engagement team involved in the prior audit(s) and (for the most part) the team assigned to this year's audit as well as the team's expertise and experience. Further, with regard to other participants, the audit committee either has this information, or can easily ask for it before the audit engagement begins.

Under this reproposal, investors will not have timely access to the detailed information the audit committee has.

4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

Assuming it is public information, the data mentioned in the question and other information can be gathered by investors, creditors or aggregators, and then updated and refined over time.

But, as mentioned, this information is old news, since investors and lenders do not know if the other participants are involved in the current audit, or will be involved in later audits, and do not know the extent of their involvement. It is not evident just how this data, which is long past its sell-by date, will useful and of value to investors. Again, there is no <u>reliable</u> information concerning the

[28] The two articles appearing in the Accounting Review and Accounting Horizons had been peer reviewed.

usefulness of this information about other participants to investors or creditors making buy/sell/hold or lending decisions.

5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

Yes, public information may be useful and important to the audit committee, but not to investors or creditors making buy/sell/hold or lending decisions.

Publicly available information would include (among other sources): (a) an enforcement action by the SEC, (b) a PCAOB disciplinary sanction or other proceeding, (c) that an other participant is registered with the PCAOB or is located in a country that does not allow PCAOB inspections, (d) proceedings by State boards of accountancy directly related to the actions of the engagement partner or an other participant, and (e) private litigation. Though publicly available information contained in private litigation concerning the engagement partner or other participants must be used with extra caution since the allegations by the plaintiff in the complaint may be biased and not ultimately be true.

An aggregator of information could readily go to different sources, assemble the above-mentioned information, package it in a uniform understandable way, and sell it to investors or creditors. Alternatively, each investor can search for the information that is focused on issuers of interest. Obviously, having all this information in one searchable databank would be more convenient and efficient; however, searching for relevant information from each regulator or public document is not difficult and should not be an impediment to those investors or creditors who believe they absolutely need this information (not a likely scenario) in making buy/sell/hold or lending decisions.

6. Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how?

Two discussions in the reproposal related to capital allocation furnish no convincing evidence to support the theory that the engagement partner's name promotes more efficient capital allocation.

1. The reproposal points out, "[b]y adding granularity to the information about who performed the audit … the differentiated information clarifies distinctions between investment alternatives and can empower investors to pursue their investment strategies more effectively." The reproposal then suggests a possible hypothetical outcome, that "[o]ver time, this could promote competition in the audit industry and could lead to a more efficient allocation of capital" [29] (emphasis added).

   The reproposal cites the Lambert et. al. paper to support the possibility that disclosure of the engagement partner's name linked to a restatement promotes more effective capital allocation for less experienced investors. The reproposal notes that Lambert et. al. "found that prospective investors were less likely to invest in a company that has been linked via the disclosure of the name of the engagement partner to another company that had to restate its financials. While

[29] 2013 Release, at 28.

this could improve capital allocation, the findings were only statistically significant for less experienced investors"[30] (emphasis added).

2. In discussing audits of EGCs, the reproposal points out a future possible benefit saying "[t]he communication of the name of the engagement partner and information about other participants in the audit could assist the market in assessing some risks associated with the audit and valuing securities, which could make capital allocation more efficient" (emphasis added).[31]

Again, the presumed possible future benefit of the disclosures is not a compelling reason to adopt this reproposal.

Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

No, the signal is only noise since any history (both positive or negative) collected directly by investors and lenders, or from third party sources, concerning an engagement partner is not an indicator of the reliability of the financial statements, that is, whether or not "the financial statements, present fairly, in all material respects, the financial position, and the results of its operations and its cash flows in conformity with accounting principles generally accepted in the United States of America."

The accounting firm itself has the most reliable information about an engagement partner's performance ratings for audit quality and there is no logical reason why any accounting firm, no matter the size, would knowingly jeopardize its reputation and financial viability by assigning an unreliable or inexperienced engagement partner to lead the audit of a public company. Of course we know that such a state of perfect professionalism does not always happen, nonetheless an engagement partner's profile – using publicly available information – does not correlate with "reliable" financial statements.

7. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

I am not aware of any empirical evidence that shows that these disclosures would impact competition among issuers.

There is no basis for making a determination that the disclosures would improve "audit quality" and consequently either promote or inhibit competition among audit firms. The Advisory Committee on the Auditing Profession supports this conclusion.[32]

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[30] 2013 Release, at 29. See Lambert et. al., at 3 and note 19.

[31] 2013 Release, at 39.

[32] U.S. Department of the Treasury's Advisory Committee on the Auditing Profession, Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury, VIII:14-VIII:15 states:

> A key issue in the public company audit market is what drives competition for audit clients and whether audit quality is the most significant driver. Currently, there is minimal publicly available information regarding indicators of audit quality at individual auditing firms. Consequently, it is difficult to determine whether audit committees, who ultimately select the auditor, and management are focused and have the tools that are useful in assessing audit quality that would contribute to making the initial auditor selection and subsequent auditor retention evaluation processes more informed and meaningful. In addition, with the majority of public

With regard to competition among audit firms, there are too many factors going into the retention of an audit firm by the audit committee to outline in this letter (some examples are outlined in response to Question 2), but having the reproposal's disclosures in the audit report is not a factor. If the audit committee believes this information is important, the audit committee can ask the auditors for it before the start of their engagement.

8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how?

Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

No paper cited in the reproposal, or any study that I am aware of, examined investors' understanding of the audit process by directly asking them to define the duties and responsibilities of the engagement partner and the audit firm. It is surprising that in this third stage of this "transparency" initiative we do not know what most investors actually understand and believe about the audit process, the oversight role of the audit committee, the responsibilities of the auditor, and the responsibilities of management. [33] [34] While the engagement partner is responsible for the engagement and its performance; do investors understand the engagement partner "may seek assistance from appropriate engagement team members in fulfilling this responsibility"?[35] For a particular issuer, do investors know how many auditors comprise the engagement team and understand the roles of the various audit engagement team members including the engagement quality reviewer? Do investors believe the engagement partner is primarily and legally responsible for the opinion signed by the accounting firm?

In sum, I believe that the prominent disclosure of the engagement partner's name and the names, locations and percent of participation of other participants will only re-enforce any misunderstanding investors have about the audit process and the roles of the above mentioned parties.

As said elsewhere in this letter, we are uninformed as to exactly how investors will use (if at all) the reproposal's disclosures in their buy, sell or hold decisions. Questions that must be answered before adopting this reproposal are:

How does knowing the name of the engagement partner or other participants enter into the technical and fundamental analysis of an investment in equity or debt by an investor?

How much (if any) weight is given by investors or lenders to the engagement partner's name in the overall investment analysis or lending decision?

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companies currently putting shareholder ratification of auditor selection to an annual vote, shareholders may also lack audit quality information important in making such a ratification decision (footnotes omitted).

[33] For example, the responsibilities of the auditor and management as outlined in AS 16, Appendix C, *Matters Included in the Audit Engagement Letter*.

[34] See discussion of the Chartered Financial Analysts Institute survey under Question 1 where 82% of those surveyed believed that auditors should publicly disclose how materiality was determined and assessed for each issuer. I believe that this survey illustrates a lack of knowledge about the audit process since any disclosure of materiality (planning, tolerable, etc.) for a particular issuer would compromise the audit.

[35] Auditing Standard No. 9, *Audit Planning.*

> Where does this information rank in the array of data ordinarily used by investors in buy, sell or hold decisions? That is, in actual use and on a scale of 1 to 10 (with 1 representing "not needed in analyzing investments" and 10 representing "must have this information") where does this data fall?

9. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data.

The article by Carcello et. al.[36] maintains that

> "[t]aken together, our evidence suggests that the partner signature requirement in the U.K. has benefited investors and other financial statement users, but that these benefits have come at the cost of significantly higher audit fees (emphasis added). Whether the benefits of the U.K. signature requirement exceed its costs is a policy decision for U.K. regulators and legislatures."[37]

> "Economically, after controlling for other determinants of audit fees, clients pay 13.2 percent higher audit fees after the implementation of the partner signature requirement (footnote omitted)."[38]

It is doubtful that just the name of the engagement partner (and not the signature) would have had any material impact on Carcello's conclusion, i.e., significantly higher audit fees. One of several limitations the article mentions is "[w]hether the PCAOB's plan to identify the partner, rather than having the partner sign his or her name to the version of the report that is delivered to the client, would obviate the audit-quality benefits observed in the U.K. is left to future research."

Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

There would be the same effects on EGCs and EGC auditors as on non-EGCs and non-EGC auditors, that is, conceivably significantly higher audit fees. If Carcello's finding is true, and if applicable to the U.S. economic, regulatory, accounting and legal environments, the higher fees discussed in the article would be an important consideration for the SEC in their determining whether the disclosures are "in the public interest, after considering the protection of investors and … will promote efficiency, competition, and capital formation." [39] See response to Question 24.

10. What costs could be imposed by the application of the consent requirement to an engagement partner who is named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

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[36] 2013 Release, at 29-30.

[37] Carcello and Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom*, The Accounting Review (September 2013), at 1515.

[38] See *supra*, at 1532.

[39] Section 103(a)(3)(C) of the Sarbanes-Oxley Act, as amended by Section 104 of the Jumpstart Our Business Startups Act ("JOBS Act").

I do not envision any material costs will be incurred when an engagement partner prepares and files a consent. I have no information as to how much (if at all) an accounting firms professional liability insurance premiums will increase due to the consent requirement.

11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements?

The concept release, the proposal and the reproposal contains no research, study or other evidence showing that filing a consent by the engagement partner would lead to any improvement in compliance with auditing standards. However, some accountants believe that having the engagement partner sign a consent would result in over-auditing and consequently higher audit fees (see the article by Carcello et. al. discussed under Question 9);[40] though there is no evidence that supports this presumption.

I do not know whether an auditor signing a consent would be considered by the courts to be the actual maker of an allegedly misleading statement, nor what form the making a statement must take under the Janus Capital decision. Also, I do not know if Janus has any affect on, for example, New York State common law causes of action, or the New York State Martin Act.

Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

There will be the same effect on EGCs and EGC auditors as on non-EGCs and non-EGC auditors.

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how?

The view – that the disclosures would increase the engagement partner's sense of accountability – is at best an aspirational goal, but is wishful thinking. There is no evidence offered in the reproposal, or by other commenters, that the disclosures would in fact result in desirable behavior modification, a "sense of accountability" and a "better audit." Further, four papers cited in the reproposal[41] do not support the presumption that the disclosures will lead to accountability which will in turn result in "better audits." Under the current system (here in the U.S.) engagement partners are more than sufficiently accountable to their firms, investors, regulators, their client's audit committee and board of directors.

In addition, the reproposal does not explain how the disclosure of the engagement partner's or other participants names will result in a "better audit" by outlining the nature, timing and extent of the enhanced procedures auditors will undertake (without overauditing), knowing that their name will be included in a sentence or two in the audit report (or elsewhere).

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[40] 2013 Release, at 29-30.

[41] Lambert et. al., Carcello and Li, Blay et al., and King et. al. The reproposal quotes two of these papers:

(1) Blay et. al. stating "disclosure requirements could produce limited or no observable improvement in audit quality," and

(2) King et. al. argues that "disclosure could lead to over-auditing" [and higher audit fees].

Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

The question presumes that there would in fact be an "increased sense of accountability" if the reproposed disclosures were required. However, as just discussed above, the mere disclosure of the name of the engagement partner or information about the other participants would not improve "audit quality" since the disclosure cannot be directly linked to any audit procedure that would change.

13. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the information about other participants in the auditor's report? Please provide any available empirical data.

The disclosure is based on "hours as of the date of the auditor's report in the most recent period's audit of the financial statements and, when applicable, internal control over financial reporting."[42] Since issuers would not ordinarily have this information, it is likely that all of the costs involved in accumulating this data would fall to the principal auditor and other participants. I have no empirical data regarding the cost of accumulating these hours and furnishing the disclosures.

The proposal does not discuss the calculation of the hours that enter into the numerator and denominator relating to majority-owned subsidiaries, majority-owned variable interest entities and equity method investees audited by other accounting firms. For example, a 55 percent consolidated subsidiary and a 25 percent owned equity method investee – it is not logical to include 100% of the hours incurred by the other auditing firms in the [N/D] equation.

There will be additional costs imposed on issuers and the auditor when the estimated hours incurred by other participants versus their actual hours would change the percentage range in which they are disclosed in the auditor's report, for example from the less than the 5% range to the 5% to less-than-10% range. Such a change would be considered material and should result in a revised reissued dual dated report and updated consents – see response to Question 16.

Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

I do not believe the costs will be materially different for EGCs or EGC auditors versus non-EGCs or non-EGC auditors.

14. What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report?

The following activities will determine some of the costs (in both time and money) relating to 1933 Act consents required to be filed by other firms named in the auditor's report:

1. The costs incurred by registrants in administering the requests for and receipt of consents from both domestic and foreign firms.
2. The very significant costs incurred by registrants when consents are not received from firms participating in the audit; the SEC filing is therefore deficient under the Securities laws and the

[42] 2013 Release, at A2-3.

effective date of the registration statement is delayed. No securities may be sold or offered for sale until the deficient registration statement is cured. Needless to say, a bad outcome and very costly.

3. The costs incurred by registrants following-up consents that were not received, or did not comply with the SEC's rules (correct wording, currently dated, manually signed, identifying the city and state where issued). Again, resulting in the delayed effective date of the registration statement.
4. The costs incurred by the registrant and the named auditor to defend any possible litigation under Section 11 of the 1933 Act.
5. The costs resulting from an other participant being named in the audit report resulting from a "true-up" of hours, and the possible need for a consent when none was previously filed – see the response to Question 16.

I note Board member Ferguson's statement[43] that "any potential increase in the liability of named engagement partners or firms is likely to be modest if there is any increase at all…." This statement may be true, but I suspect it is not. Auditors should never underestimate the resourcefulness and creativity of the plaintiff's bar especially when there will be more firms filing and signing consents; consequently, more defendants and more litigation. I believe the Board's anticipated benefits of the disclosures and the resulting consents that would be filed will not outweigh the costs (in time and money) of possible Section 11 litigation.

Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?

Since the other firm may or may not know that they will be named in the audit report (depending their level of participation in the audit), these other firms should assume that they will be named. Accordingly, their engagement letter should document restricting the use of the firm's name only to the audit report, the consent and the "experts" paragraph in the registration statement. The following costs (in both time and money) may be incurred by the other firm:

1. Review of all the various drafts of the SEC filing before submission of the consent.
2. Requesting the registrant to update any management representations previously received.
3. Requesting updated legal letters.
4. Auditing subsequent events from the date of performing their audit (or certain audit procedures) up to the effective date of the registration statement.

15. Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements?

The reproposal contains no supporting evidence showing that other firms signing a consent would improve "compliance with existing requirements," or result in a "better" audit. While I believe that compliance would <u>not</u> be changed by the filing of a consent by other firms, I recognize there is no anecdotal or empirical evidence that supports my belief or, for that matter, any contrary claim that a consent would result in improved compliance or other benefits.

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[43] Statement on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits, Dec. 4, 2013.

Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

I believe the consent requirement will not have any substantial effect on EGCs or EGC auditors versus non-EGCs or non-EGC auditors.

16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not?

A single number implies an accuracy that is not obtainable since at the audit report date not all the hours may have been accumulated; therefore, these hours would have to be estimated. Using ranges allows the percentage of participation to be disclosed without undue delay.

Using the ranges suggested in the reproposal[44] as brightline tests in the audit report, raises the question of what should the firm signing the audit report do when there is a change in a disclosure range due to a "true-up" to actual? For example, shortly after issuing the audit report the audit firm finds that the actual hours subsequently places the other firm's participation into either a higher range or lower range (e.g., from (20% – <30%) to (30 – <40%) or vice versa). I believe that since the reproposal prescribes the ranges, and thus defines materiality, this change in the range would be considered material, and the audit report would need to be revised, reissued and dual dated. [45]

Further, if the estimate of participation is changed from under 5% to over 5% due to the actual hours being higher, then the other participant would need to be named in a revised reissued dual dated audit report and a consent filed.

Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

Yes, in general fewer administrative costs since the auditor will not be waiting for each other participant to submit their final time reports internally and then submit their accumulated hours to the signing firm. However, in light of the above discussion regarding the "true-up" to actual there may be instances where a reissued audit report and concomitant consents will impose unexpected higher audit costs to the issuer.

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

The 5 percent threshold is too low. A 20 percent threshold would be more appropriate since, as PCAOB Release 2003-007 points out, it "is consistent with accounting literature on 'significance' tests" (the footnote citing Releases Nos. 33-8183 and 33-8183A regarding auditor independence).[46]

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[44] 2013 Release, at A2-4, Paragraph 14C added to AU 508.

[45] The theory underlying the accounting for estimates resulting from new information (ASC 250, *Accounting Changes and Error Corrections*) does not apply to estimates used in the auditor's report.

[46] Also see Regulation S-X, Items 2-01, 3-05, 3-09, 3-10, 3-16, 8-03, 8-04, and 10-01 regarding materiality using a 20 percent test.

As explained in the reproposal, PCAOB Rule 1001 defines the phrase "play a substantial role in the preparation or furnishing of an audit report" using a threshold of 20 percent or more. If the Board believes a lower threshold, say 10 percent, will capture more names of accounting firms that investors would find valuable in their appetite for an investment edge, the Board should consider revisiting Rule 1001 and lower the 20 percent materiality test. Consequently, more accounting firms would be registered and subject to inspection.

The paper referred to in the reproposal, i.e., Dee et. al., (in support of disclosure of other participants in the audit) uses data from the PCAOB Form 2 filings which captures auditors performing a "substantial role" (20 percent test) in the audit. Other than sweeping in more names of other participants in the audit, there is no evidence that proves or even suggests that using 3% or 5% or 10% is a material percentage that will endow investors with any superior knowledge about the issuers audited financial statements, about the nature and significance of the audit work performed by the other participants, and about "audit quality."

It is understood that certain firms may not be registered with the PCAOB, or subject to PCAOB oversight; however, an accounting firm that is not subject to PCAOB oversight does not automatically translate into their performing an inadequate audit, or that the financial statements audited by that firm are not in accordance with GAAP.

The basic question is whether the reproposal's disclosures about those other accounting firms provide usable and important buy, sell or hold information to investors? Notwithstanding the Dee et. al. paper purporting to support the disclosures, there is no factual basis to conclude that the disclosures provide useable and valuable information to investors.

18. Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?

To determine the "quality" of (1) an office of the firm issuing the auditor's report, (2) an office of the firm in a country different from where the firm is headquartered (which is not disclosed under the reproposal), (3) a foreign affiliate (which is disclosed), or (4) another entity that is distinct from the accounting firm issuing the auditor's report (which is disclosed), an investor would have to match up the names of these entities with PCAOB inspection and other reports (assuming the entity is registered with the PCAOB), SEC enforcement actions, actions by other U.S., state or foreign government agencies or regulators, private litigation both in the U.S. and in other countries, and other public data.

Depending on the circumstances, this could be a complex task and it is highly questionable whether investors can actually use the names of the various entities required to be disclosed (plus information about the headquarters office of the firm and the range of participation) when analyzing the technical and fundamental merits of investing in, selling or holding shares or debt of an issuer. The reproposal does not demonstrate, nor is there any anecdotal evidence, that investors can in fact use the disclosures relating to the above-mentioned other participants in making investment decisions that would produce investment returns superior to those investors who simply ignore this information.

b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

Any final auditing statement should clarify the various distinctions made in reproposal; for instance, a separate firm or entity,[47] vs. separate legal entity, vs. entities under the control of the firm signing the audit report vs. network affiliation of the firm signing the audit report.

19. Are there special considerations for alternative practice structures or other nontraditional practice structures that the Board should take into account regarding the reproposed requirement to disclose other participants in the audit?

The reproposal addresses an alternative practice structure where professionals are leased from an affiliated but legally separate entity. Since those leased employees are considered "persons not employed by the firm," such practice structure does not present any impediment to making the required disclosures regarding the extent of participation and location; however, as mentioned in response to Question 18(b), it is not clear why the form of the alternative structure, as opposed to its substance, governs the disclosure.

I am unaware of any other alternative practice structure the Board should consider.

20. Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

There is no evidence that investors have any need for the location and extent of participation of specialists. For decades, investors have never asked for (nor had they independently sought) this information. Investors have not persuasively made the argument for why they need this disclosure and how important it is (to the exclusion of other data) in making buy, sell or hold investment decisions.

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

I do not envision any challenges in implementing this requirement. However, for consultants, specialists or other participants that charge a fixed fee, and do not charge by the hour, it is not clear how their participation will be measured under new paragraph .14A to AU section 508.

Any costs involved should be de minimis.

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[47] 2013 Release, at A3-13.

21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed?

Auditors should not disclose the consultants or specialists name since this information would be more than auditors are required to disclose to the audit committee. AS 16, *Communications with Audit Committees*, states:

> "10. As part of communicating the overall audit strategy, the auditor should communicate the following matters to the audit committee, if applicable:
>
> a. The nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results related to significant risks (footnote omitted)…."

Further, disclosure of the names of consultants and specialists will not provide investors with any usable investment information. There is no observed evidence that this information has been or is currently vital to investors. Such information will likely allow investors to "second guess" the professional judgment of the auditor's decisions about who participated in the audit,[48] and the oversight role of the audit committee.

If named, most investors will likely not devote the time and money to research such consultants and specialists: for instance information about their education, degrees held, training, codes of practice, independence, skills, knowledge, years of experience, professional competence, speeches given, articles written, whether they are licensed and/or regulated and so forth.

Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

Assuming the disclosures required under the reproposal are adopted as drafted, there is no need for more information regarding the individuals, consulting firms, or specialists since the reproposal's disclosure of the participant's location and the extent of the participant's involvement provides much more information than investors presently (or foreseeably) need.

22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

Assuming the disclosures required under the reproposal are adopted as drafted, then the disclosures should be incorporated into a new and targeted PCAOB form[49] that would capture on a timely basis the name of the engagement partner and the names of other participants. This new form should be filed by the auditors within four business days after the audit report is issued, and should be directly and immediately accessible by the public on the PCAOB's website. This new form could also be used to include updated and current information on "Individuals with Certain Disciplinary or Other Histories"[50] and other data deemed material to investors.

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[48] See AU 336, *Using the Work of a Specialist.*

[49] 2013 Release, at 34.

[50] Item 7.1 of Form 2.

Investors will neither be inconvenienced nor have any difficulty in accessing the disclosures in this new form using a friendly on-line interface that is continually updated. Also, audit firms should readily overcome the objections raised in the reproposal regarding "new reporting structures."[51] Further, the objection by the PCAOB regarding the administration and policing of the "filing of thousands of individual forms annually" and the creation of a system to make the forms easily available, while initially costly (and less so in subsequent periods) should be overcome by the presumed benefits of this new and targeted form. For example:

1. As discussed in the reproposal this new filing "likely would obviate any requirement for a consent by the named parties under Section 7 of the Securities Act and might further lessen any potential risk of liability under Section 10(b) by not including the names in the auditor's report itself."[52]
2. Investors would only need to go to one source for information concerning engagement partners and other participants instead of having to secure annual reports, extracting the information and compiling their own database from public sources, or alternatively subscribe to this information from a third party aggregator.
3. Research would be facilitated if disciplinary histories and other pertinent material data are also included in the new form.

Board member Franzel asks[53] "is the audit report the proper place for disclosures of the audit engagement partner name and other participants? Would the information be more useful to investors if placed in the audit committee report in the proxy statement along with additional context about the audit committee's oversight of the audit?"

I agree that the audit committee's oversight role with regard to the audit firm's engagement would be more prominent if the disclosures were made in the Audit Committee's Report or elsewhere in the proxy (e.g., Item 9. *Independent Public Accountants*); however, if timeliness of information is important, then a new and targeted PCAOB form should be used for this disclosure.

23. Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

Assuming the disclosures required under the reproposal are adopted as drafted, then the disclosures should apply <u>only</u> to broker-dealers who either are issuers (as defined in the 1934 Act), or are a subsidiary of an issuer. Logically, there is no reason to believe that investors in such broker-dealers need less information than other investors.

The reproposal explains that "[d]isclosure of the engagement partner or other participants may be of limited use to individual owners, but it may be useful to other financial statement users."[54] It is

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[51] 2013 Release, at 34.

[52] 2013 Release, at 33.

[53] Statement on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits, Jeanette M. Franzel, Board Member; Dec. 4, 2013.

[54] 2013 Release, at 27.

not clear just how the reproposed disclosures would be useful to "other financial statement users," i.e., non-investors in broker-dealers. If the reproposal is adopted as drafted, this perceived use by "other financial statement users" should be explained.

24. Should the reproposed disclosure requirements be applicable for the audits of EGCs?

Assuming the disclosures required under the reproposal are adopted as drafted, the disclosures should also apply to EGCs.

However, for the reasons discussed in this letter, the reproposed disclosures will not provide investors in EGCs with important, immediate and sufficient information needed to make informed investment or voting decisions.

Also, there is a question as to whether the disclosures are "in the public interest, after considering the protection of investors and … will promote efficiency, competition, and capital formation," see response to Question 9.

Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

I do not know of any empirical data concerning whether the reproposed disclosures, when applied to audits of EGCs, will would protect investors and "promote efficiency, competition, and capital formation."

Further, I am not aware of the economic effects on EGCs (other than possible higher audit costs) that would result from the requirements of the reproposal that the Board should consider relating to the protection of investors and whether the disclosures will promote "efficiency, competition, and capital formation."

25. Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies?

As mentioned, in theory the disclosures should be of equal importance in the audits of EGCs versus non-EGCs; however, there is no evidence that the reproposed disclosures are in the public interest, and would protect investors as required under the JOBS Act (see response to Question 9).

Are there benefits of the reproposed amendments that are specific to the EGC context?

I know of no benefits that are specific to EGCs versus non-EGCs.

* * * * *

I appreciate your consideration of my comments, suggestions and responses to the Questions for Commenters in Section VII of the reproposal and would be pleased to answer any questions the Board or the Staff may have concerning this letter.

Sincerely,

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March 12, 2014

VIA E-MAIL comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

Re: PCAOB Release No. 2013-009, Rulemaking Docket Matter No. 029, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* ("Proposed Amendments")

Dear Members of the Board:

WeiserMazars LLP ("WeiserMazars") welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (the "PCAOB" or the "Board") Proposed Amendments. WeiserMazars supports the PCAOB in its efforts to enhance audit quality in audits of issuers in order to provide investors and other financial statement users increased transparency in financial reporting so they can make appropriately informed investment decisions. We also support the Board in its efforts to promote transparency by providing investors and other financial statement users with appropriate information to enable them to assess the necessary qualifications and competencies of all registered public accounting firms who audit the financial statements of issuers.

WeiserMazars is a firm with over 100 partners and 650 professionals in six offices across the United States ("U.S."), an independent member firm of the Mazars Group, an organization with over 14,000 professionals in more than 70 countries around the world, and a member of Praxity, a global alliance of independent firms. Because we are a U.S. registered public accounting firm, and a member of an international network, our perspectives may differ from our international counterparts due to variations in the client population and litigation environment.

Our responses to the Board's Proposed Amendments are driven primarily by our position in the U.S. marketplace as a medium-sized public accounting firm servicing issuers with less than $0.5 billion in market capitalization held by non-affiliates. Therefore, our focus is to address our concerns and challenges to companies with similar characteristics to our issuer client base as well as to similar accounting firms.

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Overall Views

We do not support disclosing: (1) the name of the engagement partner in the most recent period's audit and (2) the names, locations, and extent of participation of other public accounting firms that took part in the audit and extent of participation of other persons (whether an individual or a company) not employed by the auditor who performed procedures on the audit ("Other Participants in the Audit").

Our position is primarily driven by the following:

- We believe audit committees are primarily responsible for vetting the quality and selection of the issuer's auditor, including but not limited to the engagement partner(s) and Other Participants in the Audit.
- The responsibility for an audit engagement rests with the Firm that issues the report, not with the individual engagement partner.
- Currently, there is no direct evidence to support improvement in audit quality would be derived from naming the audit partner and/or Other Participants in the Audit in the report.
- There is a high risk of incorrect conclusions drawn by investors and other financial statement users by directly associating an individual engagement partner with business failures, restatements, etc., without consideration of a variety of other contributing factors
- There may be incremental exposure to litigation and personal liability for engagement partners and Other Participants in the Audit.

We support the Board's mission to develop auditing standards that promote transparency and improvements in audit quality; however, we believe the Proposed Amendments will result in unintended consequences without obvious improvement in performance.

<u>Questions Related to Section VII:</u>

1. ***Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?***

Disclosing the name of the engagement partner and information about Other Participants in the Audit in the auditors' report will not provide investors and other financial statement users valuable or useful information on which to make informed decisions. In fact, we believe, while "transparency" may be improved, there can be no direct correlation drawn from this information to the quality of the audit performed and may result in unwarranted and unsupported assumptions and conclusions about the nature of the audit, the engagement partner and Other Participants in the Audit. The appropriate context of this information is available to audit committees in the execution of their duties under their company's audit committee charters.

When an audit is conducted, significant decisions about critical audit matters and other aspects of the audit engagement are required to be discussed with the engagement quality reviewer ("EQR") along with various key professionals, specialists and quality control professionals throughout the registered public accounting firm. Decisions on significant issues do not solely rest on the shoulders of the engagement partner. Specific procedures, protocols and adherence to the standards of the PCAOB and other professional standards are inherent in a public accounting firm's quality control system to ensure there is a system of checks and balances before an audit opinion is released to the investing public. Therefore, investors and other financial statement users should not solely rely on the reputation of the engagement partner when assessing audit quality but should be assessing the reputation of the entire registered public accounting firm. To the degree members of the audit committee, investors and other financial statement users need information to assess audit quality or firms; they have at their fingertips information contained in the registered public accounting firm's public filings with the PCAOB and inspection reports posted by the Board as well as other publicly available data.

Investors and other financial statement users might use the information to gain only "surface-level" understanding on the competency, reputation, history of restatements, litigation, etc., of the engagement partner and Other Participants in the Audit by comparing such individuals to others in a database and assigning them a "grade" or benchmark.

2. ***Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?***

We believe indicating the name(s) of the engagement partner and the extent of Other Participants in the Audit would provide limited to no value to shareholders when deciding whether to ratify a company's choice of registered public accounting firm as its auditor. We view the engagement partner and Other Participants in the Audit aspect of the audit engagement to be encompassed in the company's audit committee's evaluation along with numerous other key factors and considerations (e.g., reputation of the registered public accounting firm and industry expertise). The audit committee's evaluation is reviewed with the company's Board of Directors prior to recommending the auditor to the shareholders for ratification.

3. ***Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?***

   a) ***Would such databases or compilations be useful to investors and other financial statement users? If so, how?***
   b) ***Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?***

We believe that such databases or compilations will not be useful to investors and other financial statement users. From such databases, which may provide only limited information, incorrect inferences or conclusions about audit quality and the individual engagement partner may be reached. Thus, the use of such databases would be self-limiting and would not provide detailed information that may be readily obtained by audit committees in vetting firms and specifically audit partners.

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We believe the development of such databases or compilations will not provide investors and audit committee members with relevant benchmarks because the focus should be assessing the quality of the registered public accounting firm and not on the individual engagement partner.

4. ***Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?***

We do not believe the inclusion of this information is useful. It is the responsibility of the registered public accounting firm to properly supervise the audit, including any Other Participants in the Audit that may be involved. As mentioned above, the key decisions in the audit process are not limited to the engagement partner alone. Additionally, the inclusion of this type of information could potentially increase the engagement partner's exposure to litigation and personal liability.

5. ***Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?***

We do not believe the ability to research publicly available information about the engagement partner or any Other Participants in the Audit is important to users of the financial statements. We do not see direct correlation between the names of engagement partners and Other Participants in the Audit with the determination or assumption of audit quality, or lack thereof. In addition, the name of the registered public accounting firm appears on the audit opinion and all inspection reports for PCAOB registered firms are available for review. Notwithstanding the individual firm's responsibility to assess performance of all professionals, including engagement partners, we believe it is the audit committee's responsibility to assess the competency and reputation of a registered public accounting firm, including engagement partner and Other Participants in the Audit. The names of the engagement partner and Other Participants in the Audit will not provide adequate information to investors and other financial statement users to enable assessment of qualification or ability, among other relevant attributes.

6. ***Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?***

We believe there is no correlation between disclosure of the engagement partner's name and effective capital allocation. As previously noted, the engagement partner is a part of the engagement team involved in rendering the opinion. We believe the requirement of a registered public accounting firm to have a strong practice monitoring program which includes all quality control policies and procedures as required by the PCAOB is more meaningful than the inclusion of the engagement partner's name which adds no significant value or guarantee of performance to users of the financial statements.

We believe that an engagement partner's history does not provide a signal about the reliability of the audit because when an audit is conducted it's based on the entire engagement team, plus other required and available firm resources (e.g. EQR, specialists, experts etc.).

7. ***Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?***

We do not believe the inclusion of the engagement partners name is relevant to the users of the financial statements and accordingly, and in our practice space, would have no impact on either promoting or inhibiting competition among audit firms or companies. We believe that the current information available about the PCAOB registered Firms is sufficient to users of the financial statements on the size and nature of issuers we audit.

8. ***Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?***

We strongly believe that the reproposed disclosure requirements as presented may cause investors and other financial statement users to draw inappropriate conclusions with respect to the quality of the audit. As noted in our previous responses above, unwarranted inferences and judgments could be made by investors and other financial statement users who do not fully comprehend the nature and extent of conducting the audit of an issuer. Without disclosing in appropriate context of what the information means, we believe such information may cause confusion and uncertainty to investors and other financial statement users.

12. ***Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.***

We do not believe the inclusion of the engagement partner's name or other participants would increase the sense of accountability. We believe in the current environment that there is more than sufficient accountability, not only for engagement partners, but for all audit professionals. Public accounting professionals must be accountable to: (a) registered public accounting firms – who have the ability to monitor and evaluate such professionals through training, performance evaluations, oversight through engagement quality reviews and quality control oversight through technical review and consultations, (b) audit committees and management of issuers – who have the ability to provide oversight over the audit process and be responsible for the appointment, pre-approval of services and compensation of registered public accounting firms, (c) regulators – who have the ability to commence an enforcement action which could impact their reputation, careers, bar them from practicing before the regulatory body and impose severe monetary penalties, and (d) public interest and investors – who have the ability to commence legal action against them if they believe there was an audit failure.

14. ***What costs could be imposed by the application of the consent requirement to other firms that are named in the auditor's report? Please discuss both administrative costs to obtain and file consents with the SEC, as well as any indirect costs that might result. How could insurance or other private contracts affect these costs?***

We believe there would be additional costs imposed since the other firms participating in the audit may perceive increased exposure to unwarranted litigation; potentially increasing costs associated with professional liability insurance and thus would charge additional fees in order to be named in the report, or otherwise, may not accept participation on the audit engagement. We believe increased cost would result in a competitive disadvantage for medium- sized registered public accounting firms and increase fees to their issuer clients without incremental improvement in audit quality.

17. ***Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?***

We believe there should be no requirement for individual disclosure of other participants in the audit. The PCAOB interim audit standards under AU 543, *Part of the Audit Performed by Other Independent Auditors*, provide adequate guidance for reference or taking responsibility for the work of others auditors.

20. ***Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."***

a) ***Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?***
b) ***Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?***

Our response to Question 20 is consistent with our response as noted in Question 14 above.

21. ***In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?***

We believe providing such information would be irrelevant. In fact, it would detract investors and other financial statements users from the principal audit firm's ultimate responsibility for overseeing the audit engagement and the work of such individuals. We also believe that other participants being named in the audit would possibly view this as unwarranted exposure on their part.

23. ***Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?***

We believe the Proposed Amendments to disclose the engagement partner's name and information about Other Participants in the Audit are not relevant to brokers-dealers as well. Our thoughts expressed in the previous questions noted above would also apply to broker-dealers. We believe there is already sufficient publicly available data to investors and other financial statement users to use.

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In Summary

We applaud the Board in its efforts on improving transparency in the audit of financial statements and related information, thereby continuing to close the expectation gap between investors and auditors. Our lack of support of the Proposed Amendments is related to our conviction that we are not providing investors and other financial statement users the complete picture of how audit quality is obtained. We remain committed to participating in future discussions with the Board and its staff about how to best implement appropriate provisions of the Proposed Amendments that would further enhance audit quality with respect to issuers and improve transparency. Lastly, we fully support the mission of educating investors and other users of financial statements about the process of auditing issuers and the meaning behind the issuance of the independent auditor's report.

We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Wendy B.Stevens, Partner-in-Charge, Quality Assurance, at (212) 375-6699 (wendy.stevens@weisermazars.com), Michael DeVito, Partner, SEC Practice Group and the Manufacturing and Distribution Group, at (732) 475-2119 (michael.devito@weisermazars.com) or Salvatore A. Collemi, Director, Quality Assurance, at (212) 375-6552 (salvatore.collemi@weisermazars.com).

Very truly yours,

WeiserMazars LLP

WeiserMazars LLP

August 30, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D. C. 20006-2803

Via email to comments@pcaobus.org

Dear Board Members:

The Auditing Standards Committee of the Auditing Section of the American Accounting Association is pleased to provide comments on the PCAOB Rulemaking Docket Matter No. 029; PCAOB Release No. 2015-004, Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form.

The views expressed in this letter are those of the members of the Auditing Standards Committee and do not reflect an official position of the American Accounting Association. In addition, the comments reflect the overall consensus view of the Committee, not necessarily the views of every individual member.

We hope that our attached comments and suggestions are helpful and will assist the Board. If the Board has any questions about our input, please feel free to contact our committee chair for any follow-up.

Respectfully submitted,

Auditing Standards Committee
Auditing Section – American Accounting Association

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Overview and Committee Perspective

The current Audit Standards Committee of the Auditing Section of the American Accounting Association ("the Committee") shares the perspective expressed in the prior committee's response to PCAOB Release 2013-009 (Anderson, Gaynor, Hackenbrack, Lisic and Wu 2014). Specifically, we:

1. commend the PCAOB ("the Board") for maintaining the focus on "transparency" rather than "accountability" as originally framed in the 2009 Concept Release (Concept Release 2009-005),[1]
2. believe firm disclosure of the name of the engagement partner will be of limited use to investors, and may be potentially harmful, when making investment decisions sans extraordinary circumstances, both initially and over time, [2] and
3. believe firm disclosure of the names, locations, and extent of participation of other participants has a far greater potential to be investor decision relevant and informative to current and future audit committees than the disclosure of the name of the lead engagement partner. See the Committee's response to question 7.

We wish to emphasize three points:

1. Should the Board choose to disclose of the engagement partner on a new PCAOB Form AP, Auditor Reporting of Certain Audit Participants, we believe the Board should requiring disclosure of the concurring partner as well. See the Committee's response to question 2.
2. Form AP should be developed to ensure the disclosures are captured in a consistent manner over time. See the Committee's response to question 5.
3. We believe the Board should carefully and deliberately consider Professor Kinney's discussion of Knechel, Vanstraelen, and Zerni (2015), and its relevance to the body of literature the Board has used to support firm disclosure of the engagement partner. Professor Kinney highlights several issues that significantly limit the external validity and the generalizability of the findings obtained in non-U.S. jurisdictions to a U.S. setting (Kinney 2015). See the Committee's response to question 11, new research.

Comments or suggestions for the Board's consideration follow, organized by the questions posed in the Supplemental Request for Comment.

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[1] In response to Release 2013-009, the prior committee noted that addressing partner accountability through disclosure of the name of the engagement partner implies that existing mechanisms at the level of the auditing firm, the client company's audit committee, the stock exchanges, the PCAOB, and the SEC are insufficient to motivate partner accountability. The Committee continues to believe that this is unlikely, whether the disclosure is made in the auditor's report or in the proposed new form.

[2] The Committee recognizes while there is no research that directly addresses firm disclosure of the name of the engagement partner in the U.S. market, prior research has shown that audit firm characteristics (i.e., size, industry specialization) are used by U.S. market participants. We also acknowledge Board Member Hanson's view that the determination of the actual usefulness of the information may not be known until U.S. market participants have a chance to evaluate the information over a number of years (Hanson 2015).

Comments on Selected Questions in the Supplemental Request for Comment

Question 1. Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?

There is no directly relevant research that we are aware of, in the U.S. or abroad, that examines the effect of the disclosure method for engagement partner names or other audit participants. While prior research finds that the form of disclosure affects readers use of financial statement disclosures (Frederickson, Hodge, and Pratt 2006; Johnson 1992; Libby and Brown 2013; Yu 2013), we feel it is a stretch to apply findings in that literature to the disclosures considered in Release 2015-004 as reactions to the form of disclosure for previously unreported information is likely fundamentally different from reactions to the form of disclosure for an evolving financial reporting standard.

That said, providing the name of the engagement partner and information pertaining to other participants on PCAOB Form AP rather than in the auditor's report is more consistent with the oversight role the Board. Disclosure on Form AP provides the desired information to interested parties without potentially burdening firms and audit participants with unnecessary legal and regulatory responsibilities regarding issues of consent to use the audit report.

Question 2. Are there special considerations relating to the Form AP approach that have not been addressed in this supplemental request for comment? If so, what are the considerations? How might the Board address them? What are the costs of Form AP compared to the costs of disclosure in the auditor's report?

If the PCAOB determines that disclosure of the audit engagement partner increases transparency and improves audit quality (see discussion in Appendix 2 of Release 2015-004), then the Board should also consider the consistency of this proposed disclosure with existing SEC rules and auditing standards. Specifically, Section 203 of the Sarbanes-Oxley Act, along with the final rules adopted by the SEC (2003), establish independence and rotation requirements not only for the lead engagement partner, but also for concurring partners on audits of SEC registrants. The motivation behind these regulations is that both lead and concurring partners have significant influence over the audit and the quality of the work performed and conclusions reached. Moreover, disclosure of concurring partners ("engagement quality review partners") would further emphasize the importance of these partners in the audit process as discussed in Auditing Standard No. 7, *Engagement Quality Review* (PCAOB 2009).

As a result, requiring disclosure of the name of the concurring partner in Part III of Form AP, along with the lead engagement partner, would seem to be consistent with the rules and standards already in place for these individuals. We also emphasize that isolating the lead engagement partner without also naming other key partners, of which several could exist on the largest engagements, can send the wrong signal to investors about the responsibility for and coordination of the audit.

Question 4. In addition to the required filing of the Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report? If so, what are those considerations or consequences? How might the Board address them?

Drawing from voluntary disclosure literature (Beyer et al. 2010), accounting firms would only choose to voluntarily disclose information in the audit report if disclosure is sufficiently favorable given the additional disclosure costs. Because many of the costs of audit report disclosure noted in the proposal accrue to the auditors and their client firms (e.g., legal liability, need for consents, etc.), we do not believe many auditors, if any, will voluntary disclose additional information in the audit report. Given that quality controls are managed at the firm level, public accounting firms would be expected to adopt a common disclosure strategy for all its audit engagements.

A complicating factor in this decision involves the potential effects on the client firm if investors react to such a disclosure. Moreover, changes in audit outcomes over time for a particular engagement could provide incentives to voluntarily disclose the information in the audit report in one year but not in the next year, which could create uncertainties for investors and other parties. Overall, it seems unlikely that firms will use the voluntary disclosure option, and if they do, they may do so strategically. Therefore, allowing for voluntary disclosure in the audit report may be counter-productive to the Board's aims.

Question 5. What search criteria and functionality would users want for information filed on Form AP? What additional criteria and functionality beyond what is described in Section IV of this release would be useful? Would third-party vendors provide additional functionality if the Board does not? Are there cost-effective ways to make the disclosure more broadly accessible to investors who may not be familiar with PCAOB forms?

For investors and other parties to efficiently use this data, the names of engagement partners and other participants should be input in a consistent manner. For example, Appendix 1 illustrates that the following information should be disclosed for the audit engagement partner: "Name (that is, first and last name and any middle name(s) and suffix) of the engagement partner on the current period's *audit*." Based on this information, we assume the same engagement partner's name could appear as John R. Smith in one year and John Robert Smith, Jr. in another year if a check is not in place to retain a consistent format. This possibility creates a "many-to-many" relationship in any database constructed from this information (i.e., multiple parties could have identical names, and one party could be reported with multiple name variants). The PCAOB should consider adding a question in Form AP asking whether the audit engagement partner had signed a report in the past, and if so, select the individual's name from a pre-existing database list. This method would maintain consistency in disclosures over time. A similar approach could be taken for other participants in the audit.

While this approach should alleviate the many-to-many relation, it retains the possibility of a "one-to-many" relation in that two partners could still have identical names. Another option, albeit a more costly one in terms of administration for the PCAOB, would be to assign partners and other entities a unique identifying number. Unique identifiers reduce the partner-to-name relation to a "one-to-one" relation, which is not only a best practice for database design, but has the added benefit of allowing users to unambiguously identify partners and other participants.

Section IV states that "over time…the PCAOB could allow users to download the search results" (2015, 9). If the primary goal is to increase transparency and allow comparison with audit outcomes, we encourage the PCAOB to provide download capabilities of Form AP data from the outset. Limiting this functionality to a later date would delay larger scale analyses of these disclosures by investors, academics, and other market participants due to the need for hand collection or collection by third party vendors.

Question 7. This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V? If the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficiently clear? Why or why not? Is the definition of control in Section V appropriate? Why or why not?

The Committee believes the disclosure of nonaccounting firm participants, particularly when combined with an indication of the amount of effort they contribute to the audit, will provide useful insight into the audit process. Given nonaccounting firm participants are likely to take part in a number of different audit engagements and potentially be used across audit firms, the conclusions that could be drawn regarding reputation would be potentially less misleading than what inferred from disclosures about a single engagement partner who would be involved in a limited set of engagements over a couple of years or even over a career.

We share the perspective expressed by the prior committee and support the requirements as proposed in the 2013 Release (Andersen et al. 2014). Again, we believe the disclosure of nonaccounting firm participants is ultimately more informative than disclosures associated with the lead engagement partner.

Question 11. Are there additional economic considerations associated with mandated disclosure, either in the auditor's report or on Form AP, that the Board should consider? If so, what are those considerations? The Board is particularly interested in hearing from academics and in receiving any available empirical data commenters can provide.

New Research – Special Emphasis

The Board documents in Appendix 2 of Release 2015-004 that recent research in non-U.S. markets presents mixed evidence on the veracity of firm disclosure of the engagement partner (e.g., Carcello and Li 2013; Blay, Notbohm, Schelleman, and Valencia 2014; Aobdia, Lin, and Petacchi 2015; Knechel et al. 2015).

The Committee believes the Board should carefully and deliberately consider Professor Kinney's discussion of Knechel et al. (2015), and its relevance to the body of literature the Board has used to support firm disclosure of the engagement partner. Professor Kinney highlights several issues that significantly limit the external validity and the generalizability of the findings obtained in non-U.S. jurisdictions to a U.S. setting (Kinney 2015). Professor's Kinney's comments are necessarily focused on Knechel et al. (2015), but are generally relevant to this body of literature. First, Knechel et al.'s (2015) primary findings are based on *private company statutory audits* in Sweden, which comprise 99.2 percent of the Swedish audit population and 95 percent of the study's sample (100 percent of the study's going concern sample). Given that Swedish audit partners sign an average of 80.3 audit reports per year, the size and risk of these engagements are much different than publicly-traded clients of U.S. audit partners. Second, Sweden did not change its mandatory partner disclosure requirements during the study's sample period, which limits the researchers' ability to test whether mandating disclosure of audit partner identities has a causal effect on auditor behavior, or is associated with reactions from other market participants. These two factors suggest the research findings may be unique to the Swedish audit environment and may not generalize to the U.S. context.

Kinney (2015) also points out that large accounting firms may use an engagement partner assignment strategy such as "best partner-to-riskiest engagements." If this type of strategy occurs in practice, then the study's findings would have the *opposite* interpretation since high quality partners would be intentionally assigned to high risk audits. As a result, public disclosure of engagement partners could have two negative consequences:

> "(a) high quality auditors would be (incorrectly) judged to be low quality, and (b) high quality auditors would refuse risky audit assignments solely because they cannot take the personal career risk" (Kinney 2015, 8).

The Committee believes the Board should be cognizant of these, and other, limitations when using research from non-U.S. jurisdictions to inform the development of U.S. policies.

New Research – Literature Review

Rather than reiterating the previous committee' comments (Anderson et al. 2014) or describing research the Board cited in Appendix 2 Release 2015-004, we considered research published or made available since the prior committee's comment. We noted in our response to Question 1 that we are not aware of research that speaks directly to the form of disclosure for entities involved in the audit. However, we identified a number of studies that speak to the potential economic impact of disclosing the identities of those involved with the audit that were not incorporated in Anderson et al. (2014) or referenced in Appendix 2 of Release 2015-004. One caveat – these studies should be considered in light of Kinney (2015).

Several new studies provide empirical results that speak to the usefulness of disclosing engagement partner information. Using market data from China, Wang, Yu, and Zhao (2014) find that an audit partner's past audit failure rate is positively associated with future restatements by the partner's clients, and the association is stronger for engagement partners than reviewing partners.[3] They also find that quality control measures at both the firm and

[3] Because Wang et al. (2014) attempted to distinguish the engagement and review partners on an engagement based on relative experience, an alternative interpretation of their finding is that the association is stronger (weaker) for

engagement level fail to consistently attenuate this association. Using data from China, Cahan and Sun (2015) find that audit partner experience is negatively associated with discretionary accruals, and positively associated with audit fees. Blay, Notbohm, Schelleman, and Valencia (2014) find that newly mandated audit partner signatures in the Netherlands did not change audit quality, as measured by levels of discretionary accruals and clients meeting or beating earnings forecasts. Ittonen, Johnstone, and Myllymäki (2015) examine data from Finland and find that audit partners with greater public-client experience are associated with lower abnormal accruals. They also find that greater public-client specialization is more important when the audit partner has lower overall audit experience. While these studies speak directly to the potential usefulness of identifying engagement partners, their prior audit failure rate, and experience, they may not generalize to the U.S. market due to the differing baseline conditions pointed out by the Board in Release 2015-004 as well as Kinney (2015).

A study by Saito and Takeda (2014) speaks to the issue of identifying other entities involved in the audit. Saito and Takeda (2014) analyzed a specific audit failure by the foreign-affiliate (ChuoAoyama) of a U.S. firm (PricewaterhouseCoopers). They find that the foreign-affiliate's failure damaged the reputation of PwC as well as other Big 4 firms with global networks as measured by stock price premiums. Their finding implies that disclosure of other entities with significant involvement in an audit may be value-relevant for investors. For a more thorough consideration of the disclosure of other entities, see the Committee's response to question 7.

Additional Form AP Metrics

A critical component of the economic impact of the Board's proposal is the usefulness of the disclosure(s) to audit report and financial statement users. As noted in the prior committee's comment (Anderson et al. 2014), the development of a robust database on audit participants could be beneficial for investors, academics, and other financial statement users. The prior committee's commentary notes that "(m)etrics beyond the name of the engagement partner are needed to make… consequential decisions …" (Anderson et al. 2014, C2). Similarly, the Board's request for comment identifies a number of metrics that may be useful, specifically the number of other public company, broker / dealer audits conducted by the engagement partner, years of industry-specific audit experience, tenure as the engagement partner on the audit, the number and nature of restatements the partner is associated with (as the engagement partner), and information regarding any disciplinary procedures.

The academic literature supports the potential usefulness of *some* of these metrics and their underlying constructs. For example, industry specialization and expertise has repeatedly been found to enhance audit quality (e.g., Wright and Wright 1997; Taylor 2000; Balsam, Krishnan, and Yang 2003; Krishnan 2003; Payne 2008; Kim, Lee, and Park 2015).[4] Partner tenure might be informative; much of the academic literature on audit tenure suggests lower audit quality in the initial years of a firm/client relationship (Geiger and Raghunandan 2002; Johnson, Khurana, and Reynolds 2002; Myers, Myers, and Omer 2003; Carcello and Nagy 2004; Knechel and Vanstraelen 2007; Jackson and Moldrich 2008; Davis, Soo, and Trompeter

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partners with less (more) experience. Such an interpretation would argue in favor of the importance of disclosing partners' experience level.

[4] However, the positive association between industry specialization and audit quality may depend on the specialization strategy pursued (quantity versus quality) (Cahan, Jeter, and Naiker 2011) and the measures of industry specialization (Minutti-Meza 2013).

2009). Further, the PCAOB and/or SEC are primary sources for many of these metrics, such as information about restatements and disciplinary actions. To the extent it is feasible, the Board may wish to consider linking its existing, non-confidential data to individual partners in the proposed database.

Data Truncation

The Board and individual board members repeatedly note that certain information in the database will be useful to investors and other interested parties *as time passes* (PCAOB 2015; Ferguson 2015; Hanson 2015). Board Member Ferguson states:

> "I do believe that even if the disclosure of a mere name has limited usefulness *initially* because of limited public information available about particular individuals, *over time*, a body of data about individual engagement partners will be developed that may be very informative and useful. It seems likely that *eventually* information will be publicly available about engagement partners such as the companies they have audited, their industry experience, any disciplinary actions in which they have been involved and likely other information." [emphasis added]

In other words, it appears the Board expects Form AP data to become more meaningful as audit partners, reporting companies, and other named participants develop a reporting history. These statements recognize an inherent problem with data sources that begin at one point in time, a problem that academics are intimately familiar with – data truncation. The data truncation problem has the potential to limit the usefulness, and thus the economic benefit to users of the Form AP data in the early years of its use.

The Committee suggests that the Board *consider* the cost-benefit trade-offs associated with steps to alleviate the data truncation problem. For example, the Board could request additional background information pertaining to partners and other audit participants when they are first included in a Form AP filing. This background information should be limited and restricted to metrics that are reasonably available and for which empirical evidence of usefulness exists (such as those noted in the previous subsection, Additional Form AP Metrics). As also noted in that subsection, the Board could link its existing, non-confidential information (such as public disciplinary proceedings) with the Form AP data, thereby alleviating part of the burden on filers while addressing the truncation issue. In addition, the Board could consider requesting information pertaining to the incumbent audit firm's previous audits of the registrant for a designated number of years (e.g., 3 years or 5 years) in the initial Form AP filing. This "historical" information could be requested only if the current audit firm was the company's main auditor, defined as the signing audit firm and not just listed as a participant firm in prior years. In order to protect audit firms that may need to retrospectively estimate the participation of other audit firms in these earlier periods, the Board could consider adopting "good faith" safe harbor rules for this "historical" audit information that would be included on the initial Form AP filing. The Committee recognizes that requiring background information on partners and audit participant firms, as well as prior audit information in the initial Form AP adoption, will increase the initial costs of gathering data and preparing and filing Form AP. The cost would be a one-time cost for any single partner or named participant. On the other hand, requiring background information increases the potential *immediate* benefits gained by users of Form AP information. By adopting these suggestions, Form AP would be more useful, more quickly, but initially more costly to prepare.

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August 31, 2015

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Re: Rulemaking Docket Matter No. 029: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form

Dear PCAOB Members:

On behalf of the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"), I appreciate the opportunity to comment on the Public Company Accounting Oversight Board ("PCAOB") supplemental request for comment on rules to require disclosure of certain audit participants on a new PCAOB form. The AFL-CIO strongly supports the efforts by the PCAOB to improve audit transparency by requiring disclosure of engagement partners and other participants in audits. The AFL-CIO has supported increased audit transparency since passage of the Sarbanes-Oxley Act of 2002, and we believe the time for enhanced disclosure is long overdue.

The AFL-CIO is the umbrella federation for U.S. labor unions, including 56 unions, representing 12.5 million union members. Union-sponsored and Taft-Hartley pension plans hold $587 billion in assets. Union members also participate directly in the capital markets as individual investors and as participants in pension plans sponsored by corporate and public-sector employers. The retirement savings of America's working families depend, in part, on companies having reliably audited financial statements.

As a matter of principle, the best place for the engagement partner's name to appear is in a signature at the bottom of the audit report. Since passage of the Sarbanes-Oxley Act, CEOs and CFOs have been required to personally sign their financial statements. This certification requirement has bolstered investor confidence in the accuracy of corporate accounting. A similar requirement for engagement partners to sign the audit report will enhance investor confidence in the quality of audits.

Many audit firms have objected that requiring engagement partners to personally sign or disclose their names in audit reports may result in enhanced legal liability under Section 11 of the Securities Act of 1933. However, from the standpoint of investors, imposing Section 11 liability on auditors for material omissions or misstatements is beneficial. Auditors may limit their Section 11 liability by conducting audits with appropriate due diligence, and this will create an incentive for improved audit quality.

While engagement partner signature of the audit report is preferable, disclosure of the identity of engagement partners in the proposed Form AP will provide many benefits for investors. Investors, who ultimately bear the costs and are the intended beneficiaries of audits, should have the right to know the identity of the engagement partners who conduct audits. Likewise, investors should be told the identities of any other accounting firms and non-accounting firm participants who took part in the audit.

Disclosure of the identity of engagement partners and other audit participants on Form AP will create reputational incentives to conduct high quality audits. With disclosure, investors will be able to examine the qualifications and experience of engagement partners and other audit participants. Knowing that investors have access to this information, audit committees will be less likely to approve of engagement partners and other audit participants who have a history of audit failures.

Finally, Form AP disclosure will enable investors to consider the reputation and qualifications of engagement partners and other participants in the audit when voting at annual shareholder meetings. Public companies routinely submit the selection of their independent auditor for ratification by shareholders. These proxy votes provide an important corporate governance mechanism for shareholders to improve accountability by expressing their views on the audit firm selected by audit committees.

Unfortunately, today's auditor ratification votes are largely symbolic because shareholders simply do not have sufficient information. For this reason, shareholders routinely vote in favor of auditors without conducting any meaningful analysis. According to data from Institutional Shareholder Services for more than 4,000 U.S. annual meetings held during the twelve month period ending June 30, 2015, auditor ratification proposals received on average the support of 98.7 percent of the votes cast.

Providing more information to shareholders about the participants in the audit, starting with the name of the engagement partner, will help make auditor ratification votes more meaningful. This enhanced transparency will not necessarily lead to failed advisory votes. Rather, shareholder scrutiny will result in improved audits in the same

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way that advisory votes on executive compensation (i.e., “say-on-pay” votes) have resulted in significant improvements to the executive compensation process.

For the purpose of proxy voting, it makes little difference whether the identity of the engagement partner and other participants in the audit is disclosed in Form AP verses the auditor report. What is important is that the information on audit participants is made publicly available. With disclosure, proxy voting advisory services are likely to begin collecting the information as a research service for their clients. The PCAOB should facilitate the dissemination this data in a downloadable format.

Thank you for the opportunity to comment on the PCAOB’s proposed rules to require disclosure of certain audit participants on a new PCAOB form. Investors will benefit from enhanced audit participant transparency. If I can provide any additional information on the AFL-CIO’s views, please contact me at 202-637-5152.

Sincerely,

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Re: PCAOB Rulemaking Docket Matter No. 029: Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form

Dear Office of the Secretary:

BDO USA, LLP appreciates the opportunity to respond to the request for comments on the Public Company Accounting Oversight Board's (the PCAOB or the Board) *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (the Supplemental Request). As noted in our prior comment letters on this topic[1], we recognize the need to increase transparency about the audit process, particularly as it relates to promoting the performance of high quality audits, and we are committed to actively participating in efforts to enhance audit performance. While the nexus between disclosure of the name of the engagement partner and other audit participants and audit quality is unclear, we believe that in order to be responsive to calls from users of the auditor's report, disclosure of the name of the engagement partner and other audit participants through Form AP, rather than the auditor's report, would provide the transparency users are looking for while avoiding many of the challenges and legal liability issues associated with providing this information in the auditor's report.

Similar to the Board's Supplemental Request, the SEC's recently issued Concept Release No. 33-9862, *Possible Revisions to Audit Committee Disclosures* (the Concept Release), is also seeking public input on disclosure of the name of the engagement partner and information about other audit participants by the audit committee in the proxy or other alternative location, among other matters relative to the audit committee's oversight of the independent auditor. Given the objective of both the Concept Release and the Supplemental Request, at least in part, is to increase transparency about the identity of the engagement partner and other audit participants, we recommend that the PCAOB work with the SEC in determining the most appropriate way forward to avoid duplicative disclosures.

Our comments have been categorized into the following nine topical sections listed below and generally align with the questions posed in the Supplemental Request.

- Transparency

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[1] See BDO's comment letters to the PCAOB on this topic dated January 9, 2012 and February 6, 2014.

- Voluntary Disclosure within Auditor's Report
- Liability Considerations
- Form AP Filing Deadline
- Non-Accounting Firm Participant Disclosure
- Rules to Implement Form AP
- Costs Relating to Form AP
- Scope of Proposal
- Effective Date

Transparency

As explained in our previous comment letters, we do not believe that identification of the engagement partner provides meaningful information about audit quality or creates an increased sense of accountability. However, we do support the PCAOB's efforts to improve transparency about the conduct and nature of the audit and, consequently, as set out in our introductory remarks, believe that identification of the audit partner in Form AP, rather than the auditor's report, is appropriate and would avoid our concerns relating to consents and increased liability exposure.

Furthermore, we support providing information about certain other audit participants to financial statement users in the newly contemplated Form AP. While the principal auditor is responsible for the audit opinion expressed and, as such, for the work performed by other auditors, (in situations where we do not make reference to another auditor in the auditor's report), we support providing transparency regarding the extent of participation of other audit participants to enhance users' understanding about how the audit was conducted. Similar to our views expressed above regarding potential liability exposure with respect to disclosure of the name of the engagement partner, we believe the use of Form AP to disclose information about certain other participants is more appropriate than disclosure in the auditor's report.

Voluntary Disclosure within Auditor's Report

The Supplemental Request suggests that an audit firm may voluntarily identify the engagement partner and provide information about certain other participants in the auditor's report, in addition to including such information in Form AP. Consistent with our views expressed above regarding potential legal liability exposure, we do not believe it would be appropriate to encourage disclosure of such information in the auditor's report, even on a voluntary basis.

Liability Considerations

As set out in our previous comment letters, we believe disclosure of the name of the engagement partner and other firm participants in the auditor's report would have significantly increased the risk of litigation primarily as it relates to Section 11 of the Securities Exchange Act of 1933. Based upon our current understanding, we believe that disclosure on Form AP rather than in the auditor's report should significantly reduce this risk. Additionally, while the potential for liability under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 still exists under the Form AP disclosure model, and the case law in this area is evolving, we do not believe this liability significantly increases with the Form AP.

Form AP Filing Deadline

The Supplemental Request proposes a 30 day period for filing the Form AP after the date the auditor's report is first included in a document filed with the SEC. Based upon our understanding of the processes that will need to be established to capture, validate, and report the required information on Form AP, we believe a filing deadline of 60 days after the audit report date would be necessary to accumulate the data before submission. Furthermore, a 60 day filing period would allow time after the 45 day documentation period, as defined in Auditing Standard No. 3, *Audit Documentation*, for firms to focus attention on gathering the relevant information from engagement teams to complete Form AP without diverting the engagement team's attention away from finalizing the documentation and assembly of the audit file for archiving.

In addition to the extension of the Form AP filing deadline, we believe filing the Form AP on a periodic and batch basis, which would allow multiple audits to be filed on a single Form AP, would help alleviate the administrative burden of filing multiple forms at one time. For example, if periodic and batch filing was implemented, we would suggest filing the Form AP on a periodic basis where the filing deadline would be based on 60 days after month end of the issuance of the auditor's report.

Non-Accounting Firm Participant Disclosure

The Supplemental Request contemplates not requiring disclosure of non-accounting firm participants in the audit as previously proposed in PCAOB Release No. 2013-009, including for example, certain 'offshore' service centers, consultants, and entities that provide accounting firms with leased employees. We agree that such disclosure is not appropriate, in large part because of the potential for misinterpretation of such a disclosure that might suggest that non-accounting firm participants are not subject to supervision by the engagement team. Under current Auditing Standards, the engagement partner is already responsible for the conduct of the audit and for the proper supervision of the engagement.

Additionally, the Quality Control Standards explain that a CPA firm is expected to have a system of quality control for its accounting and auditing practice, which includes hiring personnel with appropriate characteristics to perform competently, assigning work to personnel based on degree of professional training and proficiency, and providing appropriate supervision, among other matters.

With respect to engaged specialists, we do not believe that disclosure would be appropriate for many of the same reasons as explained above relating to non-accounting firm participants. Additionally, the auditor's use of the work of specialists is currently being considered as part of the Staff Consultation Paper No. 2015-01, and any revisions to the use of specialists, supervision, or external reporting should be considered as part of that consultation.

Further, we do not agree with the more tailored disclosure approach suggested within the Supplemental Request that would not require reporting if the non-accounting firm participants were controlled by or under common control with the accounting firm issuing the auditor's report, but would require such disclosure where non-accounting firm participants were not controlled by or under common control. We believe this tailored approach would lead to inconsistent disclosures among firms based solely on the structure of the accounting firm, and as a result would provide potentially misleading information to users.

Rules to Implement Form AP

We believe there are two main areas that require clarification within the Supplemental Request, which relate to:

- the ability to use estimates when determining other audit participants level of participation; and
- reissuance of the auditor's report

Use of Estimates to Determine Level of Participation of Other Audit Participants

Determining the level of participation of other audit participants may be complex and require the use of estimates because of a variety of reasons, in particular, when the extent to which the work performed for other purposes is also used for purposes of the audit of the consolidated entity. For example, in jurisdictions outside the United States, it is not uncommon for statutory audits to be required by local regulations for subsidiaries of the U.S. consolidated entity. In these situations, materiality thresholds used for the statutory audit often differ from those used for consolidated audit purposes, such that more extensive work is performed for the statutory audit than would have been performed if the purpose of the procedures were solely for the audit of the consolidated entity. Accordingly, in these circumstances it would be necessary to estimate the hours incurred by the component auditor for purposes of the consolidated audit. As currently proposed, the Supplemental Request does not address the use of estimates in determining the level of other audit participants. We believe additional guidance is necessary that recognizes the challenges in developing precise participation levels and allows firms flexibility in making reasonable estimates.

Reissuance of the Auditor's Report

We note that the Supplemental Request, on page 9, explains that the obligation to file Form AP would be tied to the issuance of the auditor's report and that if the auditor's report is reissued and dual-dated, a new Form AP would be required, even when no other information on the form changed. However, the Supplemental Request, on page 16 under 'Effective Date,' explains that 'the Board is considering making the requirements effective for auditor's reports issued or reissued on or after June 30, 2016,' and does not refer to dual-dating the auditor's report. Given these two seemingly contradictory statements, it is unclear when the Form AP is expected to be triggered. Moreover, reissuances of auditor's reports without any changes to a previously filed Form AP would likely occur often due to filing of multiple registration statements or amendments and the benefit of filing a new Form AP is uncertain. For this reason, we suggest clarifying the guidance around the reissuance of the auditor's report such that a new Form AP would only be required when the date of the auditor's report has been updated and there is a change in the other information provided in Form AP. We believe this approach provides users with appropriate decision-making information without increasing the administrative burden on firms.

Costs Relating to Form AP

The costs to comply with the proposed requirement to file Form AP for each audit report issued pursuant to PCAOB standards includes both initial costs to develop systems and processes, as necessary, and ongoing implementation costs. While costs will likely be highest during the development phase and first year of implementation, there will be ongoing costs associated with accumulating, verifying, and reporting the applicable information. However, we believe these costs are likely to be far less than the costs related to including this information in the auditor's report, which would have required obtaining consents for auditor's report disclosure and subjecting firms to potential Section 11 liability.

Scope of Proposal

Consistent with our views expressed in our comment letter dated February 6, 2014, we believe that Form AP should apply to Emerging Growth Companies because of the benefits of transparency to all financial statement users. However, we do not support application of the Proposed Amendments to non-issuer brokers and dealers, because (1) the ownership of these brokers is primarily closely held and direct owners are generally part of management, and (2) we believe this information would not be relevant to third parties.

Effective Date

Assuming the Board adopts a rule during 2015 requiring the identification of the engagement partner and disclosure of other audit participant information on Form AP, we do not believe it would be feasible to implement this requirement for auditor's reports issued or reissued on or after June 30, 2016, or three months after the SEC approves the requirements. As noted earlier, we believe additional clarity is needed on (1) the ability to use estimates in determining the level of participation of other audit participants, (2) the ability to file multiple auditor's reports on one Form AP, and (3) filing relating to reissuances. Additionally, firms will need time to develop and implement systems to accumulate and validate information for submission on Form AP.

Recognizing the importance of providing the market with the information they consider necessary to make informed decisions in a timely manner, we believe a phased in approach may be appropriate, such that the partner disclosure in Form AP would be effective earlier than the more time-intensive disclosure of other participants and their level of participation. While the disclosure of the engagement partner would be less time intensive than the disclosure of other audit participants, systems to accumulate that data will nevertheless also be required and, for this reason, we suggest an effective date for the disclosure of the engagement partner in Form AP for auditor's reports issued or reissued and dual dated 6 months after SEC approval, and an effective date for the disclosure of other audit participants in Form AP for auditor's reports issued or reissued and dual dated 1 year after SEC approval.

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We appreciate your consideration of our comments and suggestions and would be pleased to discuss them with you at your convenience. Please direct any questions to Chris Smith, National Accounting & Auditing Professional Practice Leader at 310-557-8549 (chsmith@bdo.com) or Susan Lister, National Director of Auditing at 212-885-8375 (slister@bdo.com).

Very truly yours,

/s/ BDO USA, LLP

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July 17, 2015

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Rulemaking Docket No. 029

Board Members:

These are my comments on PCAOB Release No. 2015-004, "Supplemental request for comment: Rules to require disclosure of certain audit participants on a new PCAOB form (Request)." This is a supplement to the Board's 2013 Reproposal to require auditors to disclose in the auditor's report the name of the engagement partner and information about certain other participants in the audit. In my January 6, 2014 letter to the Board I strongly disagreed with disclosure of the name of the engagement partner while agreeing, subject to some modifications, with listing the names, locations and extent of participation of other accounting firms and other persons that took part in the audit.

The Request focuses primarily on the question of whether the information being considered for disclosure should be included in a new form to be filed with the PCAOB rather than in the auditor's report. On page 2 the Request states that, "The Board continues to consider whether to mandate auditor disclosure regarding certain audit participants and, if so, whether disclosure should be made in the auditor's report or on Form AP." However, it also notes that "… investors have consistently sought (this disclosure) throughout the Board's rulemaking process …" More importantly, the 27 page appendix on Economic Considerations reads, at least to this commenter, as a basis for concluding that these disclosures should be required. Thus, notwithstanding the "continues to consider" wording mentioned above, the Request reads as though the Board has decided that these disclosures will be mandated and the only question is whether they will be in the auditor's report or the new Form AP. The PCAOB has developed the Form AP approach to address concerns raised by accounting firms that including the engagement partner name in the auditor's report would lead to increased liability and perhaps greater litigation risk.

The SEC has also issued a concept release (Release), "Possible revisions to audit committee disclosures." Questions 34-42 of that Release ask whether disclosure of the name of the engagement partner would be useful to investors and, if so, where it should be presented. While I continue to believe that disclosure of the engagement partner's name is not useful to investors, if such disclosure is made it would be more logical to do so in the audit committee report in the proxy statement wherein investors are often asked to ratify audit firm selection. (Questions 48-49 in the Release also deal with the related matter of possible disclosure of other firms involved in the audit.)

The purpose of this letter, then, is to provide additional comments as to why I believe disclosure of the name of the engagement partner should not be required. While I plan to comment on this matter to the SEC, I'm hoping the PCAOB is still open minded and will consider further input. In particular, I believe it is appropriate to respond to some of the points made in the Economic Considerations section of the Request with which I do not agree. Also, I have read all of the comment letters from users on the 2013 Reproposal and wish to share a few observations about points made in some of those letters.

Economic Considerations

On page A2-8 under The Benefits of Disclosure, the Board argues that, "Among other things, the disclosures would allow investors to research whether engagement partners have been associated with adverse audit outcomes that could be attributed to deficiencies in their audit work or have been sanctioned by the PCAOB or SEC." As noted in my earlier letter, this notion of accentuating the negatives and using the naming process as a way of ferreting out bad actors seems to be a prominent theme if not the causal theme of the whole exercise. For example, on the following page the Request states, "For example, investors would be able to observe whether financial statements audited by the engagement partner have been restated or whether the engagement partner has been sanctioned by the PCAOB or SEC, and investors and other financial statement users could also research other publicly available information."

But the Economic Considerations section gives very little attention to exactly how this "research" or these "observations" by investors and other interested parties would occur. A name by itself is of very little value although some searching of SEC or PCAOB enforcement releases using only names might be possible. More likely, as the earlier Reproposal indicated, some sort of databases would need to develop over time to include not only engagement partner names but important related information. As Board Member Ferguson suggested at the June 30 PCAOB Open Meeting, "It seems likely that eventually information will be publicly available about engagement partners such as the companies they have audited, their industry experience, any disciplinary actions in which they have been involved and likely other information." Rather than such general speculation about whether such an information base would be developed and what it might include, I believe the PCAOB (and/or the investors who request the information) ought to have a better idea of what might be in such a database before mandating disclosure to feed into it. And who is going to develop the information and pay for its upkeep? Would investors really be willing to put their money where their mouth is on this?

I am reminded of "If you build it, they will come," from the movie *Field of Dreams*. But in that fictional setting there was a definitive building plan to produce the desired outcome. The Request fails to offer more than one of the pieces of construction material in hopes that others will pitch in with the remaining pieces and somehow produce a meaningful completed structure. Not a word is said about who will pay for those other pieces, as just one defect of the Request.

In thinking about the possible contents of such a database, several matters come to mind. It might be fairly easy to gather the information needed to post SEC and PCAOB enforcement actions. However, as I stated in my earlier letter, I suspect that nearly all audit committees would reject someone subject to an earlier enforcement action from becoming their engagement partner, assuming the individual is even allowed to continue to serve public clients. So the inclusion of any such individuals in a database should be of no real importance to investors. When Board members suggest that such future database would help investors "… identify whether an engagement partner has been the subject of any public disciplinary proceedings (statement of Board Member Harris at PCAOB Open Meeting on June 30)," have they considered that no conscientious audit committee would ever accept an engagement partner with such a blemish on their record?

Next is the issue of restated financial statements. Many restatements are greatly concerning and could certainly call into question the technical capabilities of the engagement partner. However, some others result from new interpretations from the SEC or other matters that do not have the same negative connotation. Treating them all as a "black mark" against the engagement partner would seem inappropriate. But who would determine whether some were acceptable and shouldn't be charged against the engagement partner? (See further comments about users' views on this matter later in the letter.)

Similarly, issuing a going concern opinion too late may be considered a negative but when was the "right time" for that qualification to be issued? Should all bankruptcies following unqualified audit opinions be considered negative factors in such a database? If not, who will be the arbiter for such judgments?

Another negative would be receiving a poor inspection report from the PCAOB. However, these reports are purposely not identified by company or individual and that would seemingly preclude their being included in an engagement partner names database. Further, even if some way were found to include this information some might question whether all reports for which exceptions are reported by the PCAOB would warrant inclusion in the database or whether some do not rise to the level of besmirching a partner's reputation in that manner.

While I'm concerned that emphasis is placed on negative factors in discussions about an engagement partner database, I'm equally concerned about what might be included as positive factors. Here are some of the things that came to mind that might possibly be included eventually in a database. While the Board doesn't need to specify the required contents of a future database, it ought to at least give some more details than it has suggested so far about what might be included to allow commenters to judge whether it's a useful notion and someone would actually pay for its use.

- The partner's education. What degrees and from where?
- All previous engagement partner experience. If all company names are not listed, should at least industry type be given?
- Recent professional development courses taken.
- Inspections of previous audits by the PCAOB for which no exceptions were reported (I assume there would be the same privacy concerns about reporting this positive information as about the negative inspections information mentioned above.)

In addition to being concerned about how engagement partner information would be used, I continue to be dismayed by the Request's various assertions about greater "accountability" supposedly flowing from being named publicly. For example, "The new disclosures should also increase accountability for auditors who are not operating at an appropriate level of accountability, because they would now be publicly associated with the audit (page A2-9)." And, "The public nature of this information, through which audit outcomes would be publicly associated with the engagement partners and other firms involved, should provide them with additional incentives to develop a reputation for consistently performing reliable audits (page A2-13)." I was particularly chagrined when I read on page A2-14 that the Board believes that "… some (engagement partners and other firms participating in the audit) already operate with a high sense of accountability." My online dictionary includes "certain" and "several" as synonyms for "some" and I certainly hope that this was a poor choice of words in drafting rather than what Board members really believe is the state of current practice.

As I said in my earlier letter, in my experience as both a public accounting firm partner and an audit committee chairman, I believe that engagement partners take their job extremely seriously. When they sign off on the firm's review and approval checklist to authorize issuance of the audit report, they recognize the great responsibility they are assuming – to investors, to the public, to the client, and to their firm. They are scared straight these days by the possibility of a PCAOB inspection that could result in serious damage to their career should inspectors find fault with their work. In addition to the quality review already performed by an independent partner, they realize that their work is further subject to challenge by the SEC should the Division of Corporation Finance or others at the Commission review the registrant. And if not reviewed by the PCAOB, their work will be subject to the firm's internal quality review program. Finally, civil litigation that threatens the very existence of accounting firms always lurks in the background as a factor that sharpens the attention of engagement partners.

The Economic Considerations section of the Request refers to some academic studies but acknowledges that none of these studies directly address the accountability issue. In short, this continues to represent a matter on which the Board asserts improvement in audit quality without any real evidence in support. On the other hand, the factors I have listed concerning substantive factors influencing engagement partner performance would indicate that as a group they are performing about as well as can be expected and being named in any public report could not result in measurable improvement. As evidenced by the PCAOB inspection process and otherwise, there is no question that technical performance by individual partners varies. But that is due to normal human differences and not to a lack of commitment or sense of responsibility by some. Nevertheless, the notion that disclosing the name of the engagement partner leads to "greater accountability" and higher audit quality means that the Board believes that many engagement partners are not sufficiently accountable at present.

It would be interesting to hear more from the Board (and users) as to the implications of such a belief. For example, does the Board believe (and have evidence to support) that we presently are faced with a situation where most engagement partners are fully accountable but we just need to raise the level of accountability of the remainder? If so, how large does the Board believe is that remainder? Instead, does the Board believe that nearly all engagement partners are quite accountable (say at the 95% level) but if their name were made public they would be even a little more accountable and get close to 100%? Or given the "some" language quoted above, does the Board believe that most engagement partners are not really very accountable (perhaps operating at the 75% level, on average) and naming them will increase audit quality very substantially? I know it isn't easy to reduce "accountability" to a specific percentage, but I also think the Board owes its publics a better explanation of what it really expects when it suggests that naming the engagement partner will lead to more accountability and higher audit quality.

The main purpose of the Economic Considerations section of the Request is, of course, to address the Board's responsibilities to weigh the potential benefits and costs of new standards including their economic impacts. However, in my view the Economic Considerations section does not persuasively demonstrate that the project would result in information in a form that would provide decision useful information to investors. And the Economic Considerations section does not contemplate all of the obvious added costs to the financial reporting system. This section of the Request is longer than the similar section from the Reproposal but it isn't necessarily better or more persuasive.

One of the added costs, in my view, is that with such a negative emphasis on the engagement partner disclosures, there would be a natural reaction by audit committees to reject any engagement partner candidate with the slightest blemish on her/his record. Thus, it would be "one strike and you're out" for anyone who is unfortunate enough to be involved with a restatement, a going concern opinion, accounting-related litigation, negative PCAOB inspection results, and possibly other factors. While some might argue that this is exactly what the PCAOB is trying to accomplish – drive higher quality by removing poor performers from the talent pool – it would have the effect of reducing the pool of those available to perform public audits. That reduction of qualified individuals would almost certainly increase audit costs and would likely increase overall audit risk. And, as I said in my earlier letter, the threat of this occurring is likely to cause many highly qualified audit partners to leave public accounting as well.

Granted, a perfect, before-the-fact cost/benefit analysis of a proposal rule such as the one under consideration is virtually impossible. But I believe the Economic Considerations section of the Request falls short of what the Board could and should do before adopting a final rule in this area. The Economic Considerations section consists mainly of the Board's own reasoning as to why disclosure should be made, supported by several academic studies, most of which are not directly on point and include little, if any, attention given to cost/benefit analysis.

Perhaps a better approach to studying costs and benefits would be for the PCAOB to sponsor a field test of its proposal. This has been done successfully by the FASB on several occasions and has often led to significant insights about proposals before their finalization.

Such a field test could involve working with a group of accounting firms and investor representatives to discuss what factors about engagement partners might be gathered, such as some of those mentioned earlier. This would provide an opportunity for the two sides to exchange views about the ease of developing that information, how long it would take to develop, how it might be used, etc.

Another step in the test would involve discussing with the investor representatives or others how such a database would be developed and exactly how information developed would actually be used in making investment decisions. This would include thinking through issues such as:

- Would any entity be motivated to develop such a database as an entrepreneurial project or would it require advance funding?
- Assuming the project would require advance funding (I think it probably would), would the investor representatives be willing to pay for it? How much?
- Given that it would probably take at least five years or so for there to be enough meaningful information in the database, would users be willing to wait that long and pay for it during a long ramp up period?
- Exactly how would the investors use the information in the database? The Request and comment letters suggest some possible uses but a field test might force users to refine their thinking and decide whether such a new database is really worthwhile – particularly if they have to pay for it!

These are just a few suggestions. A robust field test could easily be performed in the next few months that would provide the Board with more meaningful input than the largely speculative thinking in the present Economic Considerations.

Users' Comment Letters

In response to the Reproposal, the Board received comment letters from the following individuals or organizations that I would classify as users.

- Sinclair Capital LLC
- CFA Institute
- Fund Democracy/Consumer Federation of America
- State of Connecticut
- American Federation of Labor and Congress of Industrial Organizations (AFL/CIO)
- Council of Institutional Investors
- California Public Employees' Retirement System (CalPERS)

As the Board stated in the Request, all of these users support disclosing the name of the engagement partner. Their letters make the same two points mentioned above: better information for investors and greater accountability by auditors leading to higher audit quality. As stated by

Denise Nappier, Connecticut State Treasurer, "The measures proposed in the Release will provide investors with valuable information and foster greater professional accountability on the part of auditors, thereby improving audit quality."

However, some of the letters paint an incomplete picture of that earlier proposal. For example, the AFL/CIO, states, "With the proposed disclosures, shareholders will be better able to evaluate whether engagement partners and any third parties participating in the audit have a history of financial restatements, disciplinary hearings or litigation." That, of course, is incorrect as disclosing a name by itself has no context and requires development of the database mentioned above. Sinclair Capital alludes to this in its letter by saying, "It would be nice for investors to be able to look at the new engagement partner and note that he/she has a great deal of expertise in technology or automotive or finance or whatever the main business is of the issuer." Sinclair at least implies that the name by itself means little; information about the person is what those investors are seeking.

But notably missing from those letters is any mention of how the information about engagement partners would be collected and financed. The letters do provide some examples of the type of information about engagement partners that might be gathered but even that should be challenged. For example, the AFL/CIO letter refers to restatements as does the CalPERS letter. But that latter letter includes the following statement, "For example, if an issuer restates its earnings, financial statement users, corporate boards and firms themselves may take note of the audit team personnel and may request another audit partner or personnel be assigned to the audit going-forward." But that is an oversimplification as the restatement might relate to financial statements audited by a predecessor engagement partner. Or, as mentioned earlier, not all restatements are created equal and a snap judgment to replace the engagement partner just doesn't seem to be logical.

It is, of course, true that users continue to believe that greater accountability will ensue from naming the engagement partner. For example, Sinclair Capital states, "... personally (sic) identification should have a salutary effect on the care with which the engagement partner conducts the audit." And Fund Democracy/Consumer Federation of America says, "We strongly agree that naming the engagement partner will improve audit by incentivizing the partner to exercise greater diligence and more forceful leadership."

CalPERS may have inadvertently provided an excellent insight about "accountability" in their comments about other participants' involvement in the audit process. Their letter states in response to three different questions in the Reproposal that, "We believe greater accountability will be achieved through the specific identification of everyone substantially contributing to the performance of the audit." While I know the reference to "everyone" in the CalPERS letter was intended to encompass other firms involved in the audit, it could easily be read to mean the quality review partner as well as any other partner who is required to rotate as well as those specialists assigned to the engagement. To effectively respond to these users' needs, therefore, the PCOAB should call for naming all of the key partners engaged in the audit and not just the one individual. An audit is not a "one woman/man job" – it is a team effort and naming a single person sends the wrong message to investors.

In summary, the views of users seem to suffer from the same weaknesses as the Board's arguments. They believe disclosure of the name of the engagement partner would somehow provide more useful information to investors but they fail to state what a necessary information base would include. And they say nothing about who would finance its development. With respect to "accountability," they argue it would be improved with disclosure of the engagement partner name. But exactly why that would occur as compared to all of the safeguards presently in place is absent from their letters. And, similar to the PCAOB, they fail to articulate any conception of the measurable improvement that somehow would occur in engagement partner performance and resulting audit quality.

Conclusion

I plan to comment on the SEC Release and indicate, as in this letter, that a persuasive case has not yet been made to require disclosure of the name of the audit partner – certainly at least not until matters discussed in this letter are addressed. I do believe that this entire project more properly belongs on the agenda of the SEC as the project has little to do with audit quality and it should be the SEC that determines whether investors would find the information useful in making proxy voting decisions and otherwise.

Sincerely,

Dennis R Beresford

Dennis R. Beresford
Executive in Residence

BERSOT
CAPITAL MANAGEMENT LLC

August 29, 2015

Via Email

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington D.C. 20006

RE: PCAOB Rulemaking Docket No. 29, Improving the Transparency of Audits

By way of background, I am an investment manager with over 35 years of experience and have managed some of the largest public and corporate pension plans in the United States as well as trusts and retirement plans for individuals. I am a Chartered Financial Analyst and have supervised portfolio managers and security analysts. I am presently Founder and CEO of Bersot Capital Management located in Marin County, California.

I support the PCAOB's effort to improve transparency of audit reports by requiring disclosure of the audit firm's engagement partner and signature on the audit report. This will increase the quality of audit reports which will benefit investors in public companies. My comments are as follows:

- Arguments against disclosure of the engagement partner have mentioned the resulting lack of teamwork within the audit firm. This is not a strong argument. Well-functioning teams exist within large corporations and investment firms where senior partners are identified. Investors know audit is a team effort and need to know who is ultimately responsible within the firm to supervise those in the field and who is accountable for the audit.
- Reputation risk might result if the engagement partner is identified and signs the audit. On the other hand, identifying the engagement partner may be a motive to insure oversight and supervision of the team preparing the audit which, from an investor's perspective, provides a safeguard against problem audits. We are told there are numerous policies and procedures in place at audit firms, but if an engagement partner is identified and signs the audit, investors have more confidence he or she will make sure these safeguards are in place.
- Corporations are required to disclose their senior managers and most provide transparency as to the leadership of the various divisions. The proposed disclosure of engagement partners would provide this transparency for audit firms. It will be apparent if engagement partners have changed. Have they left the firm? Why? How many relationships do they have? Investors have a right to assess the quality of the audit, which is presently difficult. Disclosure of the engagement partner would help.
- Are audit firm's objective? They work closely with the corporations who hire and pay them and often engage them for tax work. If the reputation of the lead partner who signs the audit is at risk there may be less pressure to overlook or ignore problems. Asking a partner to sign the audit is not an accusation of wrong doing. If this is an industry standard then the standards of the industry will be elevated and conflicts of interest will be less of a concern for investors.

Proxy ballots include approving the re engagement of the audit firm. Investors have little information to guide this decision and routinely vote with management. A signature on the audit report will provide transparency and some assurance the person supervising the audit is accountable and involved. I do not favor an additional document with the disclosure of the engagement partner rather than signature on the audit. It may be difficult for the average investor to know how to access this information.

As an investor who represents other investors, I support PCAOB Docket 29 and would like to see the requirement that an audit firm's engagement partner sign the audit. This will provide greater transparency and offer investors, both those on Main Street and Wall Street, more assurance that the financial reports are accurate as presented.

Mary M. Bersot

Mary M. Bersot, CFA
CEO & Founder
Bersot Capital Management, LLC

From:	buhllarry
To:	Comments
Cc:	buhllarry@gmail.com
Subject:	Docket 029: Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits
Date:	Tuesday, September 01, 2015 9:26:03 AM

I realize I am one day late on my comments below. The comments are few, and are supplemental to a letter I submitted over 1 year ago.

In my view, identifying the engagement partner will not provide meaningful additional information to
investors. Observations in the PCAOB proposal are that identifying the specific senior audit partner will
affect some educated investor's investment decision on a registered company or affect the care of the CPA partner signing the report.
The current proposal in how to do it is much better than prior suggestions. However……..

If it takes 15 pages for the PCAOB to summarize some quality evaluative issues for Audit Committees in its “Audit Committee Dialogue” of May 2015, what significant investment or voting decisions are the investing public to make from the disclosure of one partner’s name, a partner who may no longer be on the engagement due to rotation or other internal Firm changes? The disclosure is after the financials are filed, and the market has already reacted to the earnings and other information that more likely affects investing decisions. Apparently no one can evaluate audit firms on this factor, if the PCAOB thinks the Audit Committee itself must do many many more steps to fulfill its role in oversight. Thus the exercise of naming a partner seems a personal PCAOB issue not a practical one for the investing or audit world, and should be given up as an issue by the PCAOB. Let the Audit Committees do their job with the much greater information they are provided.

For the PCAOB to continue its path that the name disclosure will cause some enhanced accountability or care-inducing psychological effects on the part of the signing CPA is extending the scope of the PCAOB into the mindset of individuals, which seems beyond the capabilities of your staff or commenters.

Respectfully,

G Lawrence Buhl
620 Portledge Drive
Bryn Mawr, Pa 19010

California Public Employees' Retirement System
Investment Office
P.O. Box 2749
Sacramento, CA 95812-2749
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August 31, 2015 Via E-Mail: comments@pcaobus.org

Phoebe W. Brown, Secretary
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street
Washington, DC 2006-2803

Re: Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB form – Audit Engagement Partner Disclosure

Dear Madam Secretary:

On behalf of the California Public Employees' Retirement System (CalPERS), thank you for the opportunity to provide our comments on improving the disclosure on the corporate audit. CalPERS is the largest defined benefit pension fund in the United States with approximately $301.6 billion in global assets.[1] CalPERS is a strong advocate of reform that ensures the continual improvement and integrity of financial reporting.[2] High quality audits underpins this.

As an investor, CalPERS relies on the auditor to attest to the quality and integrity of financial statements. We have favored including the engagement partner signature in the audit report since 2008. We strongly support the engagement partner being identified by name, as this transparency supports accountability. There is an international trend for greater transparency in auditing, and we see evidence from certain markets which already require the identification of the engagement partner, that it improves the quality of the audit. Although our preference is for an engagement partner signature along with disclosure of certain other participants in the audit report, we would accept, as a second best alternative, the mandated disclosures in the new PCAOB Form AP.

CalPERS Supports Disclosure of the Audit Engagement Partner Signature

CalPERS believes that accurate and reliable audited financial statements are critical to investors in making informed financial decisions and maintaining confidence in the marketplace. As described in the supplemental request for comment, the Public Company Accounting Oversight Board (PCAOB, Board) has been discussing the issue of including the engagement partner signature in the audit for a decade.[3]

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[1] CalPERS investment fund values as of market close on August 3, 2015. CalPERS Facts at a Glance. https://www.calpers.ca.gov/page/about/organization/facts-at-a-glance.

[2] CalPERS Global Governance Principles, California Public Employees Retirement System, Section 4. Integrity of Financial Reporting, Updated March 16, 2015. https://www.calpers.ca.gov/docs/forms-publications/global-principles-corporate-governance.pdf

[3] Daniel L. Goelzer, Board Member, Statement on Concept Release on Requiring the Engagement Partner to Sign the Audit Report, July 28, 2009. http://pcaobus.org/News/Speech/Pages/07282009_StatementGoelzerEPS.aspx

In accordance with our Global Principles, we believe that including the engagement partner signature improves audit quality. We have consistently been in favor of including the engagement partner's signature in the audit report. In 2008, we agreed with the US Treasury's Advisory Committee on the Auditing Profession's (ACAP's) recommendation that the PCAOB consider mandating the engagement partner's signature on the auditor's report to affirm the accountability of the auditor.[4] In response to the PCAOB's 2009 concept release, we stated that:

> We believe requiring the engagement partner to sign the audit report will enhance audit quality by increasing the engagement partner's sense of accountability to financial statement users (providers of capital), lead to greater care in performing the audit and possibly provide better investor protection.[5]

Last year, we expressed our view that:

> Requiring audit partners to sign the opinions they issue will enhance accountability and reliability in the audit process.[6]

Signature Requirement Will Not Impose Any Greater Liabilities

KPMG has commented, "the fact that an engagement partner has been named in a suit that seeks a material amount of monetary damages may make it more difficult for that individual to qualify for a mortgage from a lending institution,"[7] and Deloitte has said "a personal signature requirement is certain to generate additional lawsuits and other proceedings against individual engagement partners, thereby raising litigation costs and the attendant burdens of litigation for the engagement partners and their firms."[8] Both firms have come out strongly against disclosure of the engagement partner signature, arguing that the requirement would increase liability. We disagree with this position.

The fact is that a signature alone would not increase liability. Liability is created when there is a problem with the audit, not when the auditor signs the audit report. As stated by the Certified Public Accounting firm, Piercy Bowler Taylor and Kern, in its August 14, 2015 comment letter:

> Litigation risk and the attendant exposure to liability is inherently the same without regard to the placement of such disclosures, if any, whenever investors are damaged

[4] CalPERS letter to the Advisory Committee on the Auditing Profession, Department of the Treasury, June 13, 2008. https://www.calpers.ca.gov/docs/governance/2008/acap-addendum-comment.pdf

[5] CalPERS letter to the PCAOB, Release 2009-005, Rulemaking Docket Matter # 029, September 14, 2009. http://pcaobus.org/Rules/Rulemaking/Docket029/022_CalPERS.pdf

[6] CalPERS letter to the PCAOB, Release 2013-009, Docket Matter # 029, March 17, 2014. http://pcaobus.org/Rules/Rulemaking/Docket029/066c_CalPERS.pdf

[7] KPMG letter to the PCAOB, Release, 2009-005, Rulemaking Docket Matter #029, September 11, 2009. http://pcaobus.org/Rules/Rulemaking/Docket029/021_KPMG.pdf

[8] Deloitte letter to the PCAOB, Release 2009-005, Rulemaking Docket Matter #029, September 11, 2009. http://pcaobus.org/Rules/Rulemaking/Docket029/020_DT.pdf

> for reasons they can attribute to financial statement misstatements, and that in any litigation, the discovery process will readily result in the identification of all responsible parties. It is clearly not an issue.[9]

When there is a high quality audit there is no fear of liability. If the audit falls short, investors should have adequate recourse.

Each engagement partner will have insurance and will be indemnified by his/her firm. Given the signature does not create additional liability and there is protection for the engagement partner, the statement in the ACAP report in October of 2008 remains, in our view, correct:

> The signature requirement should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm.[10]

No additional liability would be imposed on an engagement partner by merely signing the audit opinion.

Disclosure Will Enhance Transparency and Accountability

CalPERS has consistently expressed its view that the engagement partner signature will enhance transparency and accountability. Recent research by Professors Joseph Carcello (member of the PCAOB Investor Advisory Group) and Chan Li concludes:

> The engagement partner's signature on the auditor's report would increase transparency and accountability.[11]

In their research, Carcello and Li concluded that audit quality improved in the United Kingdom after the effective date of the partner signature requirement.[12] Specifically, they found that abnormal accruals significantly declined, frequency of small earnings increases declined, information value of earnings increased, and the incidence of qualified audit opinions increased significantly.[13] They conclude that when audit partners knew their names were on the line, they were more likely to issue qualified opinions and less likely to sign off on audits with managed earnings.

International Trend to Disclose Engagement Partner Name

The international trend is in favor of naming the engagement partner in the audit report. Of the twenty countries with the largest market capitalization, the United States, Canada,

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[9] Piercy Bowler Taylor & Kern letter to the PCAOB, Release 2015-004, Docket Matter # 029, August 14, 2015. http://pcaobus.org/Rules/Rulemaking/Docket029/009d_PBTK.PDF

[10] *Final Report, Advisory Committee on the Auditing Profession,* VII: 20 Oct. 6, 2008. http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf.

[11] Joseph V. Carcello and Chan Li, "Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom", *The Accounting Review*: September 2013, Vol. 88, No. 5, pp. 1511-1546. SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2225427&download=yes

[12] Ibid., pg.1512

[13] Ibid., pg. 1513

Republic of Korea, and Hong Kong are the only four that do not require the naming of the engagement partner in the auditor's report.[14] An amended Directive of the European Union (EU) on statutory audits requires the audit report to be signed and dated by the statutory auditor.[15] The EU rules to improve the quality of statutory audits, published in the Official Journal of the EU on May 27, 2014, require all 28 member states to have in place the provisions necessary to comply with the Directive by mid-2016.[16]

Additionally, the International Auditing and Assurance Standards Board updated the International Standard on Auditing 700 (Revised) (ISA 700), which is effective for audits of financial statements for periods ending on or after December 15, 2016. ISA 700 states:

> The name of the engagement partner shall be included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities… naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report of a complete set of general purpose financial statements of a listed entity.[17]

From an investor's perspective, we continue to believe that there are good reasons to include the engagement partner's signature and additional information regarding certain other participants in the audit report.

We do not believe that disclosure on Form AP as described in the release will achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report, but it would constitute an improvement, so we do address certain questions in the current proposal discussing PCAOB Form AP in the following Attachment. Furthermore, we believe that Form AP would be improved if it is expanded to include the additional items listed in our response to Question Number 5 in the following Attachment.

[14] PCAOB Supplemental Request for Comment: Rules to require disclosure of certain audit participants on a new PCAOB Form, footnote 48, quoted from the World Bank, 2015.
http://pcaobus.org/Rules/Rulemaking/Docket029/Release_2015_004.pdf

[15] Directive 2014/56 EU of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts 16 April 2014.
http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0056

[16] Official Journal of the European Union, Volume 57, 27 May 2014. http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2014:158:TOC

[17] IAASB, International *Standard on Auditing 700 (Revised) Forming an opinion and Reporting on Financial Statement*, Paragraph #45, Name of the Engagement Partner, January 2015.
https://www.ifac.org/system/files/publications/files/Reporting-on-AFS-New-%26-Revised-Stds-Combined_1.pdf
http://www.ifac.org/publications-resources/international-standard-auditing-isa-700-revised-forming-opinion-and-reporting

Again, CalPERS appreciates the opportunity to comment on this reproposal. We thank you for considering our views. If you have any questions, please do not hesitate to contact James Andrus at 916-795-9058 or James.Andrus@calpers.ca.gov.

Sincerely,

ANNE SIMPSON
Investment Director
CalPERS

cc: James Andrus, Investment Manager

1.	Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?

We believe that the disclosure on Form AP fails to achieve the same potential benefits of transparency and accountability as mandatory disclosure in the auditor's report. Disclosure in the auditor's report offers greater transparency because it is disclosed in the auditor's primary means of communication with shareowners and is immediately available. We also agree with the study outlined in the PCAOB's Appendix 2 that a signature requirement would provide a more pronounced effect on audit quality than the disclosure requirement in the Form AP. Empirical research by Carcello and Li has shown that the signature makes a difference in the UK.[1]

2.	Are there special considerations relating to the Form AP approach that have not been addressed in this supplemental request for comment? If so, what are the considerations? How might the Board address them? What are the costs of Form AP compared to the costs of disclosure in the auditor's report?

We are not aware of any additional special considerations relating to the Form AP that have not been addressed in the supplemental request for comment. As noted in the PCAOB Release the Form AP approach may impose higher search costs on investors since the auditor's report already exists and provides communication to investors. These search costs will be relatively minimal given available technology and borne by those seeking additional information.

3.	Would disclosure on Form AP mitigate commenters' concerns about liability? Are there potential unintended consequences, including liability-related consequences under federal or state law, of the Form AP approach? If so, what are the consequences? How might the Board address them?

Form AP would create no new liability because the signature would not damage an investor. At most, having the signature would give damaged investors a better chance at obtaining recourse against those that created the damage. An auditing firm that fails to properly do its job might have a slightly harder time defending itself. This requirement will have no impact on higher quality audits.

[1] Joseph V. Carcello and Chan Li, *The Accounting Review* Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom.

4. In addition to the required filing of the Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report? If so, what are those considerations or consequences? How might the Board address them?

In the absence of required disclosures in the audit report, CalPERS would support voluntary disclosure in the auditor's report. Frankly, past experience with companies merely complying with what is required leads us to conclude that few companies will voluntarily go beyond what is required.

5. What search criteria and functionality would users want for information filed on Form AP? What additional criteria and functionality beyond what is described in Section IV of this release would be useful? Would third-party vendors provide additional functionality if the Board does not? Are there cost-effective ways to make the disclosure more broadly accessible to investors who may not be familiar with PCAOB forms?

We support the suggested searchable and downloadable data points outlined in the PCAOB's release. We also suggest including:

- ✓ *Engagement Partner's tenure at current audit firm;*
- ✓ *Engagement Partner's tenure at other audit firms;*
- ✓ *Engagement Partner's professional credentials;*
- ✓ *A comprehensive listing of Companies the engagement partner was the lead (signing partner) over the last 5 years;*
- ✓ *Engagement Partner's industry experience tied to listing of industries of companies;*
- ✓ *Listing of PCAOB inspection reports where he or she was the engagement partner: and*
- ✓ *Listing of companies where the audit utilized other audit firms and the extent of the use of those audit firms.*

6. Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP? Should the deadline be shorter or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (*e.g.*, 60 days) in the first year of implementation? Should the 10-day deadline apply whenever the auditor's report is included in a Securities Act registration statement, not just in the case of an IPO?

No, 30 days is too much time. The advantage of an engagement partner signature or including the engagement partner name in the auditor's report is that disclosure is immediately available in the primary source of communication. The Form AP would be a supplement to what is required in the audit report; we strongly support this being contemporaneous with the audit report given all of the information in the Form AP is known at the time the audit report is issued.

7. This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V? If the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficiently clear? Why or why not? Is the definition of control in Section V appropriate? Why or why not?

CalPERS continues to believe that the PCAOB should require disclosure of non-accounting firm participants in the audit. We believe uniform treatment of accounting firm participants and non-accounting firms provides greater transparency.

8. Does Form AP pose any specific issues for EGCs? Would disclosure of the required information on Form AP promote efficiency, competition, and capital formation if applied to EGCs? If so, how? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard? Would creating an exemption for audits of EGCs benefit or harm EGCs or their investors? Why?

CalPERS is a strong advocate that all publicly listed companies follow the same requirements. We are not aware of any basis for excluding the audits of emerging growth companies from the proposed rules. The disclosure requirements should apply to all issuers.

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
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August 27, 2015

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

VIA EMAIL: comments@pcaobus.org

Re: Rulemaking Docket Matter No. 029, PCAOB Release No. 2015-004 – Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form.

Dear Members of PCAOB:

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). CalSTRS is a public pension fund that was established for the benefit of California's public school teachers over 100 years ago. CalSTRS serves the investment and retirement interests of approximately 880,000 plan participants. As of June 30, 2015, the CalSTRS portfolio was valued at approximately $191 billion on both a domestic and an international basis.

CalSTRS is a long-term investor, and like other investors in the global capital markets, we need to have confidence in the services performed by the external auditor for companies held in our investment portfolio. CalSTRS believes that the work performed by a company's external auditor is an extremely valuable means through which shareholders receive reasonable assurance that the company's financial statements are fairly presented and free from material misstatements. For this reason, we appreciate the opportunity to comment on PCAOB Release No. 2015-004, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form.*

CalSTRS is supportive of Public Company Accounting Oversight Board's (PCAOB) efforts to enhance transparency in corporate financial reporting by requiring the disclosure of the engagement partner on the new PCAOB form, Form AP. We believe the required disclosure of the engagement partner on Form AP will lead to enhanced transparency in corporate financial reporting, which will benefit investors as it increases confidence in the financial statements. Furthermore, the disclosure will increase personal accountability that can improve audit quality.

Preferably, CalSTRS believes that the auditor's report is the appropriate place for the disclosure of the engagement partner's name since it is currently where communication takes place between the auditor and investors. However, we are mindful of the potential logistic or liability concerns in mandating the engagement partner disclosure on the auditor's report so we are also supportive of the Form AP as an alternative location for the disclosure. Nonetheless, this is under the assumption that the engagement partner names will be housed in a database that is easily accessible, searchable and downloadable from the PCAOB's website, otherwise, investors may not be inclined to use it. We also presume that the database will store the engagement partner information as well as any necessary pertinent context where investors, financial statement users and other third-party vendors can easily retrieve any current or historical information for analysis in a meaningful way as it may relate to audit quality.

In regards to the filing timeline, CalSTRS believes the required disclosure information on the Form AP should be filed within 10 days, as opposed to 30 days, after the auditor's report has been included in the Securities Exchange Commission filing as timely information is more relevant and useful for investors. Also, we do not think it should be too difficult or costly for a company to obtain and compile the information to disclose on the Form AP once the auditor's report has been issued.

CalSTRS believes that the required disclosure of the engagement partner on Form AP should be applied equally to all auditors, including those of emerging growth companies (EGCs). Under the JOBS Act, EGCs have exemptions from certain accounting and auditing reporting requirements, however, we do not think that the identification of the engagement partner on Form AP will pose an unreasonable challenge or impact on their limited resources. In fact, we believe that it will allow greater visibility in the market for EGCs, which is beneficial for investors.

Lastly, it should be noted we are also supportive of having the engagement partner disclosed in the audit committee report in the company's proxy statement as another alternative. CalSTRS uses the proxy statement to obtain information on the auditor, such as their audit and non-audit fees and services, in determining the auditor ratification vote. Similarly, any information on the engagement partner would potentially be useful when we cast our auditor ratification votes.

Overall, CalSTRS finds that the disclosure of the engagement partner on the Form AP can benefit investors and improve transparency and accountability in corporate financial reporting. CalSTRS appreciates the opportunity to comment on this Supplemental Request. If you have any questions please do not hesitate to contact me.

Sincerely,

Anne Sheehan
Director of Corporate Governance

September 7, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

RE: Supplemental Request for Comment: *Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (PCAOB Release No. 2015-004; Docket Matter No. 029)

Dear Board Members and Staff:

I am writing to provide input on the Board's deliberations regarding whether to disclose the identity of the engagement partner and certain other audit participants. My views are informed by many years performing research related to audit and governance-related regulation, including research directly applicable to the issue of identifying the audit engagement partner. In addition, my views reflect my years serving on the PCAOB's Investor Advisory Group (IAG) (2010-2015), years serving on the PCAOB's Standing Advisory Group (SAG) (three 2-year terms between 2006 and 2012), and my current service on the SEC's Investor Advisory Committee (IAC) (2014-2018). The issue of identifying the engagement partner has been discussed on multiple occasions by the IAG and SAG, and I have benefitted from private conversations with certain members of the SEC's IAC.

Identification of the Engagement Partner

Investors and investor advocates, particularly institutional investors, have been consistent in their support of requiring the identification of the engagement partner. A large majority of members of the PCAOB's IAG have favored disclosing the name of the engagement partner when this issue has been discussed at our meetings. Moreover, by my count the PCAOB has received 13 comment letters from institutional investors or investor advocacy groups on its "Supplemental Request for Comment" – all 13 of these comment letters support the identification of the engagement partner.[1] Most of these investor comment letters prefer the disclosure of the engagement partner's identity in the audit report and, in fact, some prefer that the engagement partner be required to sign the audit report (e.g., AFL-CIO, CalPERS). However, with one exception (Bersot Capital Management), these investor groups are willing to accept, with varying degrees of enthusiasm, the disclosure of the engagement partner's identity on a new Form AP as a compromise solution.

I strongly favor the disclosure of the engagement partner's identity as well. Three options for such disclosure have been considered: (1) requiring the engagement partner's signature in the audit report

[1] The 13 organizations are: Council of Institutional Investors, Mandarin Capital Partners, Sinclair Capital LLC, CalSTRS, Hermes, Bersot Capital Management, Muddy Waters Research, Colorado PERA, CFA Institute, AFL-CIO, Worker Owner Council of the Northwest, CalPERS, and The Investment Association.

(the PCAOB originally suggested this possibility), (2) requiring the disclosure of the engagement partner's name in the audit report (a number of PCAOB releases have considered this possibility), and (3) requiring the disclosure of the engagement partner's name in a new form (at this point, the option being considered is a new form -- Form AP). In my view, the weakest of these three options is disclosing the engagement partner's name on Form AP (a view shared with Muddy Waters' comment letter). Notwithstanding the limitations associated with Form AP (elaborated on below), I believe that disclosing the name of the engagement partner on Form AP is a noticeable improvement over current practice and will achieve the transparency benefits that the PCAOB seeks from this project. Disclosure of the engagement partner's name on Form AP may achieve accountability benefits, especially over time, but any such benefits are likely to be weaker than if the engagement partner had been identified in the audit report and weaker still than if the engagement partner had to sign the audit report. But given the opposition of the public accounting profession to disclosing the name of the engagement partner in the audit report, and the general willingness of the accounting profession to accept disclosure on Form AP, the compromise solution developed by the PCAOB seems reasonable.

Disclosing the engagement partner's name on Form AP will achieve the transparency benefits the PCAOB is seeking and, although investors will incur slightly higher search costs, investors will benefit from visibility as to all of the audit engagements performed by individual partners (a number of the investor comment letters made this point). In addition, these transparency benefits may affect audit committee incentives to seek engagement partners that develop a reputation for providing higher quality services (see p. A2-6 of the PCAOB's proposal). But the accountability effects of identifying the partner via Form AP are likely to be weaker than identifying the partner in the audit report because the partner will read the audit report that identifies him or her by name. Simple human experience suggests that seeing one's name in a public document – being broadly identifiable – is likely to affect behavior. Conversely, the engagement partner will almost certainly not prepare and file the Form AP.[2] Firms will likely view filing the form as a simple compliance exercise, and the engagement partner will probably not even know when the form is being filed. Nevertheless, requiring disclosure of engagement partner identity on Form AP seems like a solution that all sides on this debate can accept, and I encourage the PCAOB to move forward expeditiously in adopting a final rule.

A small technical comment – the Board needs to retain the proposed requirement in Item 3.1a6 to require the disclosure of the partner's first, last, and middle name – not middle initial, middle name. Although I am uniquely identified with a middle initial, a partner named "John W. Smith" may not be.

<u>Identification of Certain Other Audit Participants</u>

Disclosing the identity and role played by other accounting firms in performing audits is also critical. This disclosure is particularly germane for audit firms located in jurisdictions that deny PCAOB inspections (i.e., China in particular, but also certain countries in Europe).

I am concerned with the language in the "Supplementary Request" that would not require disclosure if "nonaccounting firm participants were controlled by or under common control with the accounting firm issuing the auditor's report" (see p. 10). As the PCAOB recognizes, such a requirement could create the perverse incentive to use a nonaccounting firm rather than an accounting firm in order to avoid disclosure requirements (see p. 13). For example, could a US auditor form an entity in China, a

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[2] The PCAOB seems to recognize that Form AP may have a less salutary effect on enhancing accountability than identifying the partner in the report (p. A2-25).

nonaccounting firm, to perform audit-like procedures on SEC registrants located in China? Since this nonaccounting firm would be controlled by the accounting firm issuing the audit report disclosure of its role would presumably not be required. Not only would lack of disclosure in this case be problematic, the language of this proposed rule may actually serve to encourage such suboptimal behavior from an audit quality perspective. I encourage the Board to never underestimate the risk of “bad actors” attempting to “game” the system.

I am also concerned with the language in the “Supplementary Request” to exclude specialists engaged, even if not employed, by the auditor (see p. 11). The ostensible reason for this change is to not disadvantage smaller auditing firms. But what if the specialist engaged by the smaller auditor is also engaged by management? This is problematic, and would need to be addressed in any final Board rule. A specialist employed by the auditor is simply more appropriate than an outside specialist engaged if that outside specialist also works for management of the audited entity.

A smaller technical comment – in Item 4.1b and Item 5.1a2, the proposed disclosure is based on the country of the headquarters office. I may be missing a nuance here, but it seems to me that the risk to investors is based on the location of the office primarily responsible for the audit work. For example, assume ABC Inc. is an SEC registrant with a large subsidiary located in Shanghai. The US audit firm, who signs the report in the 10-K, is based in NY, and uses an overseas audit firm for the Shanghai-based subsidiary. Let’s assume that ABC Inc. does not want investors to know that a substantial part of the audit is performed by a firm based in China that is not subject to PCAOB inspections. It would seem that the US audit firm could retain a foreign firm, let’s call the firm “Non-China Foreign Firm”, whose headquarters are elsewhere but that has a major presence in China. The actual work would be done by the *Chinese office* (my emphasis) of “Non-China Foreign Firm” but the audit report would disclose that the work was done by “Non-China Foreign Firm”. And if “Non-China Foreign Firm” is located in a country that allows PCAOB inspections all would seem well to investors when the reality is quite different and undisclosed, unless I misunderstood this section of the PCAOB’s proposed rule.

Thank you for considering my suggestions.

Sincerely,

Joseph V. Carcello

Joseph V. Carcello
Department Head – Accounting & Information Management
Executive Director – Neel Corporate Governance Center
EY and Business Alumni Professor
Haslam College of Business, University of Tennessee

Pw's Comments regarding; PCAOB Rulemaking Docket Matter No. 029

Submitted: August 31, 2015

CC:

Jennifer Rand, Deputy Chief Auditor (202/207-9206, randj@pcaobus.org);

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Lisa Calandriello, Assistant Chief Auditor (202/207-9337, calandriellol@pcaobus.org).

Dear Folks:

Good afternoon and hope all is well way back East….

- **Please Note: Pw Carey takes sole ownership and pride in the following comments directed to the PCAOB. Pw, a sometimes reputable individual with an agnostic bent, does tend to drool at times, however this in no way reflect upon his professional associations, societies, friends and relatives of same, at this point in time.**

1. Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report?

- **No….not as it is currently being considered**

How do they compare?

- **No, not without fair public access to same, after a triggering event of six (6) investor queries expressing concern with the level of lying, cheating and stealing connected with same.**

Would providing the disclosures on Form AP change how investors or other users would use the information?

- **No. Only if they have unencumbered public access to same….**

2. Are there special considerations relating to the Form AP approach that have not been addressed in this supplemental request for comment?

Yes. The establishment of format rules to assist Forensic Auditors when reviewing the Audit Logs, Audit Reports, et al.

Also, a triggering mechanism, that would kick open the doors for a formal audit review, whereby after six (6) or seven (7) queries/complaints regarding the veracity of the Formal Audit's including; lying, cheating, stealing, fraud, conflicts of interest, withholding of information material to the audit would be nice to have. Don't you agree?

If so, what are the considerations?

Human nature, and the desire to tip the scales in favor of those on the inside, (aka:"… if you're not cheating, you're not trying"….)

How might the Board address them?

Include some teeth-n-sticks along with this proposal, such as a formal review/audit kicks in when ever malfeasance is demonstrated resulting in three (3) years of public service dedicated to getting folks off welfare in the poorest communities in the United States.

What are the costs of Form AP compared to the costs of disclosure in the auditor's report?

Calculate the cost of nipping one fraud in the bud, say ($500,000.00 USDs) times another number should give us a fair benchmark. Don't you think?

3. Would disclosure on Form AP mitigate commenter's' concerns about liability?

Nope. Those suffering from repeated bouts of unforeseen examples of; 'bad judgment', 'ethical lapses', 'mistakes' and 'poor judgment', 'poor choices' et al….would still float to the top, sorta like a half eaten Baby Ruth bobbing around in a country club's swimming pool.

Are there potential unintended consequences, including liability related consequences under federal or state law, of the Form AP approach?

- **Nope, not all. The rule of law in the United States will take care of the consequences, over time….as we can't catch all the speeders, but we'll catch some of them, (aka: financial bad actors)**

If so, what are the consequences?

- **Repeat the question please?......Just kidding.**

How might the Board address them?

- **Ask yourself, if you were God and wanted to take into account the best interests of the investor, what would you like to have knowledge of….?**

4. In addition to the required filing of the Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report?

- **Nope. The truth tends to will out, just as the wheels of justice tend to grind slowly, very slowly.**

If so, what are those considerations or consequences?

- **Please see previous comments.**

How might the Board address them?

- **Please see previous comments.**

5. What search criteria and functionality would users want for information filed on Form AP?

- **Same data format throughout, universal agreement to satisfy a Forensic Auditor, regardless of what encryption is used. The Content/Data much not be obfuscated and/or destroyed due to data encryption and de-cryption during an investigation.**

What additional criteria and functionality beyond what is described in Section IV of this release would be useful?

- **Don't know, need to review that section IV…**

Would third-party vendors provide additional functionality if the Board does not?

- **Never trust 3rd party vendors. Their goals are counter to ensuring the best outcomes for the investor.**

Are there cost-effective ways to make the disclosure more broadly accessible to investors who may not be familiar with PCAOB forms?

- **Yes, universal use of XML formats including Java formats…..et al…just pick one that doesn't breakdown under stress testing encountered with encrypted data and forensic audits….**

6. Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP?

- **Yes, just don't lose track of them…**

Should the deadline be shorter or longer?

Make that tem (10 Business Days) rather than 10 calendar days….so we're all on the same calendar.

Why?

- **It's more considerate. Don't you agree?**

Are there circumstances that might necessitate a different filing deadline?

- **You mean religious holidays, like Saint Patrick's Day or Guy Fawkes Day? Nope. A deadline is a whatchamacallit……**

For example, should there be a longer deadline (e.g., 60 days) in the first year of implementation?

- **Nope.**

Should the 10-day deadline apply whenever the auditor's report is included in a Securities Act registration statement, not just in the case of an IPO?

- **Yes, for ease of memory, et al.…**

7. This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants?

No. It is totally inappropriate…..if they have a greater than 10% influence upon the accuracy of the audit in question….and that's being polite.

If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V?

- **The Golden Rule for Auditing to uncover fraud is; Report, Report, Report, (aka: the more logs the better)**

If the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficiently clear?

- **No, please refer to "The Golden Rule for Auditing to Uncover FRAUD" is; Report, Report, Report, (aka: the more logs the better)**

Why or why not?

- **Please see previous comment.**

Is the definition of control in Section V appropriate?

- **Nope. Does not protect the investor from the Auditors; lying, cheating and stealing, does it?**

Why or why not?

- **Please See Previous Comment (lack of investor protection)**

8. Does Form AP pose any specific issues for EGCs?

- **Nope. Just something for them to consider along with their Business Model.**

Would disclosure of the required information on Form AP promote efficiency, competition, and capital formation if applied to EGCs?

- **Make this determination after a Test Phase of three (3) months. Don't see why it wouldn't, as it would allow them to take a closer look at what they're doing and trying to accomplish.**

If so, how?

Please see previous comment.

How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard?

- **More data/information available to the investor is better than less or NO ACCESS WHAT SO EVER. Which is what they're faced with at this point in time. No?**

Would creating an exemption for audits of EGCs benefit or harm EGCs or their investors?

- **Harm.**

Why?

- **Please see previous comments.**

9. Does Form AP pose any specific issues for brokers, dealers, or other entities?

- **Yes.**

If so, what are those issues?

- **Greater opportunity for Independent Forensic Auditors to discover bad actors within the Audit Community/Industry.**

How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard?

- **Greater opportunity for discovery of Auditor; lying, cheating and stealing via increased information/data pertaining to formal audits.**

10. Are the rule to implement Form AP, the instructions to Form AP, and the amendments to AU sec. 508 included in Appendix 1 clear and appropriate?

- **Sorta but not really……too many big words….and phrases, such as….”….If the Auditor chooses to do so….” Whenever we encounter that phrase it makes us want to pull up the covers and go back to sleep……**

Why or why not?

- **Fear of being hoodwinked…..by the Equity Goblins**

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June 30, 2015

11. Are there additional economic considerations associated with mandated disclosure, either in the auditor's report or on Form AP, that the Board should consider?

- **Lack of disclosure leading to financial bombs hurting the Investor Community as well as the Investment Community……sounds about right….(Aka: guess who stayed up all night last weekend…..hint…..China?)**

If so, what are those considerations?

- **Fear and loathing of the Equity Goblins will suffice at this point in time…..**

The Board is particularly interested in hearing from academics and in receiving any available empirical data commenter’s can provide.

- **Find some folks who are truly Agnostic, do not have any skin in the game, are not political and regularly read CITYAM…..would be a nice choice…..or someone like me……whichever comes first….**

12. Assuming the Board adopts a rule during 2015, would it be feasible to make the requirement, either in the auditor's report or on Form AP, effective for auditors' reports issued or reissued on or after June 30, 2016, or three months after the SEC approves the requirements, whichever is later?

- **Yes, plus or minus a three (3) month stress testing/break-in phase of course.**

How much time following SEC approval would firms need to implement the requirement either in the auditor's report or on Form AP?

- **Three (3) months after successfully completing the Stress Test Phase with a score of 89.7% to pass**

In summary, it is our professional and personal opinion that once again the investor community is kept in the dark. Not the investment community (comprised of all the different aromas drifting out from under Wall Street), nor the auditors, CPAs, Regulators and their bosses in Washington, nor those currently residing in the C-suites around the world.

Rather, once more it's the investor who has been excluded from the role of arbitrator for what information is good for them to have access to. Interesting, no?

In conclusion, thank you for allowing us to express our comments to a swell bunch of regulators who are looking out for our best interests. Honest. We turn to you all for guidance, if not satisfaction at this point in time. And our best wishes, too….

Respectfully submitted,

Pw Carey

Senior IT GRC Auditor, CISSP, CISA

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CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets

August 28, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 029: Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants.

The CAQ welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (the Supplemental Request). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

Similar to views previously expressed on this topic,[1] the CAQ supports the PCAOB's efforts to be responsive to calls from financial statement users for increased transparency around the audit. We also commend the Board for its responsiveness to concerns raised and recommendations made by a variety of stakeholders regarding identifying the engagement partner in the auditor's report by proposing disclosure of this information in the newly created Form AP, *Auditor Reporting of Certain Audit Participants* (Form AP). We believe providing the engagement partner name through Form AP would avoid many of the practical challenges and significant legal impediments that would arise from providing this information in the auditor's report.[2]

[1] See the CAQ's comment letters to the PCAOB dated September 11, 2009, January 9, 2012, and February 3, 2014.
[2] Ibid.

The CAQ also supports providing information about certain other audit participants to financial statement users to assist in enhancing their understanding of the auditor's role and responsibilities. For many of the same reasons noted above relating to identifying the engagement partner on Form AP, we believe providing information about certain other audit participants through Form AP would also be more appropriate than providing this information in the auditor's report. We continue to believe, however, that there would be benefits if the PCAOB provided additional clarity and implementation guidance on disclosures related to these audit participants, particularly as it relates to the ability to use estimates when determining each firm's level of participation. We also believe adjusting the filing deadline and having additional time to implement those disclosure requirements would allow audit firms to address many of these challenges. We discuss these items further in Appendix I, including other alternatives the Board could consider.

We set forth our observations regarding identifying the engagement partner and certain other participants in the audit within Form AP in this letter, and have organized them as follows:

- Transparency and Accessibility of Information
- Voluntary Disclosure in the Auditor's Report
- Scope of the Proposal
- Other Considerations

Please refer to Appendix I for additional discussion on liability considerations with respect to Form AP and other matters, specifically related to the Board's questions on disclosure of certain other firm participants, costs of Form AP disclosure relative to disclosure in the auditor's report, the Form AP filing deadline, and feasibility of the proposed effective date.

Transparency and Accessibility of Information

The CAQ supports the identification of the engagement partner and certain other audit participants in Form AP, as compared to the auditor's report, as we believe Form AP would avoid the potential challenges in obtaining consents from the engagement partner and certain other participants in the audits. We also believe that identification of this information in Form AP would facilitate effective and efficient access of this information by investors and other stakeholders.

It appears that Form AP would be an accessible, searchable form of information for investors and other stakeholders in that the identification of the engagement partner and certain other audit participants would be centralized in one location for all issuer audits. In making investment decisions, investors and other stakeholders may already look to multiple sources of information, including PCAOB information about registered firms (e.g., inspection reports) and issuer filings with the Securities and Exchange Commission (SEC); providing the information addressed in the Supplemental Request for all issuer audits in a centralized location on the PCAOB's website would facilitate easier access to that information by investors and other stakeholders who may consider it relevant to their decision making. Form AP would also provide a consistent data format that would appear to allow for the development of searchable functionalities (e.g., search by engagement partner to find the audits of companies that he or she is leading or has led as well as by company to find the engagement partner and/or other audit participants involved in the audit).

Further, Form AP affords the additional benefit to audit firms of being able to provide this information after the filing of the auditor's report, whereas being required to include such information in the auditor's report would have diverted the auditor's attention at a critical point of the audit (e.g., the completion phase) to accumulate information from other participants and make any necessary estimates. However, we believe modifying the Form AP filing deadline by either extending the deadline for filing Form AP to 60 days to incorporate the 45-day time period required to finalize audit documentation or by allowing Form AP to be filed periodically covering multiple audits in a single form would provide audit firms with more time to gather the necessary information, while still meeting the needs of investors and other stakeholders. Please refer to Appendix I for additional discussion and possible alternatives with respect to the proposed 30-day filing deadline.

Voluntary Disclosure in the Auditor's Report

With respect to the Board's consideration of allowing an audit firm to voluntarily identify the engagement partner and provide information about certain other audit participants in the auditor's report, we continue to have concerns that disclosing this information in the auditor's report, whether required or voluntary, could result in increased risk of liability under Section 11 of the Securities Act of 1933.[3] In addition, the practical challenges that would result from the obligation to obtain consents related to securities filings, as referenced in our past comment letters, would present risks of delays in capital raising activities of issuers. We believe, given the increased litigation risk and practical challenges, it would be exceptionally rare that audit firms would voluntarily disclose this information in the auditor's report.

As the Board considers the most appropriate means of disclosing this information to investors and other stakeholders who may find it meaningful, we encourage the Board to also consider the SEC's recently issued Concept Release No. 33-9862, *Possible Revisions to Audit Committee Disclosures* (Concept Release). The SEC's Concept Release explores, among other potential disclosures regarding the audit committee's oversight of the external auditor, the potential disclosure of the name of the engagement partner and information about other audit participants by audit committees in the proxy or in other alternative locations. Given the audit committee's critical role in hiring, compensating, and overseeing the external auditor, disclosure by the audit committee as contemplated in the Concept Release should also be considered.

Scope of the Proposal

Emerging Growth Companies (EGC)

Similar to views expressed in our previous letter,[4] we believe the requirement to disclose the engagement partner and additional information about certain other audit participants should apply to audits of EGCs. EGCs exhibit characteristics similar to other issuers (e.g., investors are directly investing in the EGC itself), and investors and other stakeholders would benefit from similar reporting requirements.

Brokers and Dealers

We continue to believe non-issuer brokers and dealers should be excluded from the requirement to disclose the engagement partner and additional information about other audit participants, consistent with views expressed in our last comment letter.[5] Due to the closely held ownership structure of non-issuer brokers and dealers and the fact that investors are not directly investing in the brokers and dealers themselves (i.e., an investor is not purchasing equity in the brokers and dealers), we do not believe that disclosure of information about the engagement partner and other audit participants would provide financial statement users of non-issuer brokers and dealers with additional relevant information.

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[3] Additionally, we note that liability could also attach to the engagement partner and/or other firm participants named in the auditor's report under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 as a "maker" of the statements as construed by the recent Supreme Court decision in *Janus*.
[4] See the CAQ's comment letter to the PCAOB dated February 3, 2014.
[5] Ibid.

Other Considerations

Single Form AP Covering Multiple Audits

We believe the Board should allow audit firms flexibility in filing Form AP, in particular allowing information from multiple audits to be addressed within the same Form AP. As some firms may have to file hundreds of these forms within a short period of time, particularly for calendar year-end issuers, it would ease the administrative burden on both the audit firms filing the forms and likely the PCAOB staff reviewing them if this information could be consolidated on fewer forms. One approach may be to allow firms the flexibility of consolidating all of the information from audits with auditor's report dates falling within a specific date range (e.g., issued within the month of February) on a single Form AP, with a specific due date for those audits falling within the range (e.g., 60 days after month end of the issuance of the auditor's report). We explore this approach in more detail in Appendix I, "*Form AP Filing Deadline*." The ability to incorporate information from multiple audits on a single Form AP would also be consistent with Form 3 reporting, which allows multiple events to be filed on one form.[6]

Filing of Form AP When Auditor's Report is Reissued

We also believe the Board should consider clarifying requirements with respect to the filing of Form AP when an auditor's report is reissued. It is unclear from the Supplemental Request as to whether a new Form AP would be required for all auditor's report reissuances or just when the auditor's report is dual-dated. In the Supplemental Request, the Board states, "Since the obligation to file Form AP would be tied to the issuance of the auditor's report, if the auditor's report is reissued and dual-dated, a new Form AP would be required even when no other information on the form changed."[7] However, the discussion of the proposed effective date in the Supplemental Request mentions reissuance but does *not* discuss dual-dating.[8] Reissuances of auditor's reports that would not result in any corresponding changes to Form AP would occur often (e.g., due to filing of multiple registration statements or amendments),[9] and it is not clear whether a new Form AP would be required or provide incremental information in each of these instances.

We understand that filing of Form AP is proposed to be tied to the auditor's report but we do not believe it is necessary to file Form AP in these circumstances unless there is a change in the information provided in Form AP. Therefore, we suggest the Board clearly state that re-filing of Form AP should only be required when the date of the auditor's report has been updated *and* there has been a change in other information provided in Form AP (e.g., when the engagement partner has changed, when a change in the audit has occurred resulting in additional audit hours incurred such that the level of participation of other firms has changed to an extent to warrant movement to another range, such as moving from the 10-20% range in participation to 20-30%, or to require separate identification of a firm not previously required to be disclosed). We believe this approach would alleviate the administrative burden of filing Form AP multiple times when the relevant information it contains has not changed from the prior filing. Furthermore, users of this information would not need to continually compare subsequent Form AP filings for auditor's report reissuances to determine whether the information has changed.

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The CAQ acknowledges the Board's responsiveness to concerns raised and recommendations made by commenters about identifying the engagement partner and providing information about certain other audit participants in the auditor's report by proposing to disclose this information in Form AP. We believe providing this information in Form AP is a better alternative to the auditor's report as it would avoid many of the practical

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[6] See PCAOB Staff Questions and Answers, *Special Reporting on Form 3*, Question 17.
[7] See pg. 9 of the Supplemental Request.
[8] See pg. 16 of the Supplemental Request.
[9] See AU 560.08, which notes that financial statements are reissued when included in reports filed with the SEC.

challenges and significant legal impediments that would result from providing this information in the auditor's report. Disclosure in Form AP could also facilitate effective and efficient access to this information by investors and other stakeholders, by centralizing the information in one dedicated location that would allow for it to be searchable.

Should the Board require the identification of the engagement partner and providing other audit participant information in Form AP, the profession would benefit from additional clarification and implementation guidance, particularly with respect to disclosure of other audit firm participants and matters related to disclosing their level of participation. Specifically, as discussed further in Appendix I, we believe this guidance should recognize the challenges in determining the relevant audit hours and allow audit firms flexibility in determining reasonable estimates of audit hours for reporting purposes, due to both the complexity of accounting for audit hours in multi-purpose testing and additional audit hours that may be incurred after the proposed Form AP filing deadline. We also believe adjusting the filing deadline and having additional time to implement those disclosure requirements would better allow audit firms to address these implementation challenges, as further discussed in Appendix I.

The CAQ appreciates the opportunity to comment on the Supplemental Request and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have regarding the views expressed in this letter.

Sincerely,

Cynthia M. Fornelli

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc:
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Lewis H. Ferguson, Board Member
Jeanette M. Franzel, Board Member
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Prof. Arnold Schilder, Chairman
James Gunn, Managing Director, Professional Standards

Appendix I – Liability Considerations and Other Matters

Note: This appendix presents the CAQ's views regarding the Board's questions on liability considerations, disclosure of certain other firm participants, costs of Form AP disclosure relative to disclosure in the auditor's report, the Form AP filing deadline, and feasibility of the proposed effective date.

Liability Considerations with Form AP

Question 3: Would disclosure on Form AP mitigate commenters' concerns about liability? Are there potential unintended consequences, including liability related consequences under federal or state law, of the Form AP approach? If so, what are the consequences? How might the Board address them?

Disclosing the name of the engagement partner and other firm participants on Form AP rather than in the auditor's report should avoid the risk that those persons would be liable for the contents of the auditor's report under Section 11 of the Securities Act of 1933.

Currently, plaintiffs have the ability to identify the engagement partner through various means (e.g., in discovery during litigation or through an annual shareholders meeting) should they desire that information. Because of evolving case law there remains a potential for increased liability under the general anti-fraud provisions, particularly Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5, for the engagement partner and other firm participants disclosed in Form AP. It is unclear whether this liability risk will significantly increase with Form AP.

Additional Clarity and Enhancements Suggested to the Disclosure of Certain Other Participants

Determination of Firm Participation

We appreciate the Board's proposed use of a range approach for disclosing the level of participation by other audit firms, which reduces some of the administrative burden that precise calculations of audit hours would impose on reporting each audit participant and related participation rates.

However, as previously mentioned, we continue to believe there are implementation challenges associated with the use of audit hours as a metric, including accounting for audit hours incurred by other participants who perform multi-purpose testing (e.g., statutory audits of subsidiaries performed abroad where the same work is also utilized for the consolidated issuer audit. See further discussion of this point below.)[10] In addition, the disclosure of participation using audit hours by country, for example, could result in disclosure of information about the issuer's operations that are otherwise not required to be disclosed by the issuer, such as through the SEC's requirements for segment reporting. Should the PCAOB move forward with using audit hours to determine the level of firm participation, we believe the profession would benefit from implementation guidance that specifically recognizes the challenges in determining the relevant audit hours and allows audit firms flexibility to make a reasonable estimate of those hours.

Accumulating and reporting time spent by other audit participants is complex, and precise information may not always be readily available for reporting on the proposed Form AP. For instance, regulations in many jurisdictions outside of the United States require statutory audits of local subsidiaries, with some requiring an audit of each separate legal entity within that local jurisdiction. As a result, there could be multiple statutory entities that comprise an accounting unit that is in the scope of the issuer's consolidated audit. The component materiality for purposes of the issuer's consolidated audit may be different than the materiality used for the statutory audit. In completing the required procedures for the issuer's consolidated audit, the component team

[10] See the CAQ's comment letter to the PCAOB dated February 3, 2014.

may use information from audit procedures performed for the statutory entities so as not to duplicate effort for both objectives. In most cases, time incurred by the component team is accumulated only for the audit of statutory entities. Accordingly, there may be limited information readily available regarding the exact amount of time incurred for purposes of the issuer's consolidated audit. Accumulating this information for reporting purposes could therefore require estimates and judgments.

Further, the calculation of firm participation could result in a percentage that approaches the upper bound of a range and the lower bound of the next range (e.g., 19% or 21%). In those instances, the firm's methodology for estimating audit hours would become relevant in determining the range category in which a participating firm should be captured. In an effort to provide timely and accurate information, consistent with the Board's intended objectives, the profession would benefit from the Board's direction on whether estimation of those audit hours is acceptable, and to what extent the Board would be comfortable in allowing firms flexibility in making a reasonable estimate.

Disclosure of Nonaccounting Firm Participants

Question 7: This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V?

We believe it is an appropriate approach to not require disclosure of nonaccounting firm participants as we do not believe this disclosure would be meaningful and could be subject to misinterpretation. Under the 2013 Re-proposal, the extent of participation for these nonaccounting firms would have been aggregated into the category "persons in [country] not employed by our firm."[11] However, many of these nonaccounting firm participants would still be subject to direct supervision by the engagement team and/or subject to the quality control systems of the audit firm, and this disclosure may give the mistaken impression that this is not the case.

The more tailored disclosure approach proposed by the Board, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, could result in inconsistent disclosures of relative participation. The structure of the accounting firms, which varies across firms, would drive inclusion or exclusion of these nonaccounting firm participants in the disclosure. We believe instead that the focus should be on how these nonaccounting firm participants function and are supervised by audit engagement teams, which generally does not vary across firms. As a result, we believe a better and more consistent approach would be not requiring disclosure of any of the nonaccounting firm participants.

Costs of Form AP Disclosure Relative to Disclosure in the Auditor's Report

Question 2: What are the costs of Form AP compared to the costs of disclosure in the auditor's report?

The CAQ believes there will be initial implementation costs for audit firms to develop systems and processes to compile and report information about the engagement partner and certain other firm participants in Form AP. Such initial costs would include developing processes to gather the information, particularly information related to other firm participants, followed by ongoing costs associated with maintenance efforts. However, these costs, in our opinion, would be significantly less than the overall cost of including this information in the auditor's

[11] See pg. 10 of the Supplemental Request.

report, which would require obtaining consents for auditor's report disclosure as well as indirect costs with respect to potential Section 11 liability. The costs associated with implementation, especially with respect to developing systems and related processes around determining the level of participation from other firms, would likely be highest in the initial year and decrease over time once the developed systems and related processes are refined and only need to be maintained. Furthermore, the potential search capabilities and centralized location of Form AP provide incremental benefits that could outweigh some of the related costs of Form AP.

Form AP Filing Deadline

Question 6: Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP? Should the deadline be shorter or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (e.g., 60 days) in the first year of implementation?

We believe the Board should consider modifying the Form AP filing deadline by extending the deadline for filing Form AP beyond the 30-day period proposed and/or allowing Form AP to be filed periodically covering multiple audits. Extending the deadline would allow more time for determining relative participation of other participating firms, while periodic reporting would allow multiple audits to be addressed on a single Form AP. As mentioned previously in the section entitled "Other Considerations" in the body of this letter, we believe filing individual Form APs for each audit would create an administrative burden that could be lessened by allowing multiple reports to be included in a single Form AP. We recommend that the Board evaluate these suggested approaches, explained further below:

1. *Extending Form AP's filing deadline to 60 days* – This would allow additional time after the 45 days required to finalize audit documentation as per Auditing Standard No. 3, *Audit Documentation*, to incorporate those audit hours into the total calculated audit hours. It would also minimize the need for estimates of audit hours in determining relative participation of certain participating firms.
2. *Filing Form AP periodically* – The filing deadline would be determined based on a set number of days (e.g., 60 days after month end of the issuance of the auditor's report). This would allow multiple audits to be filed on a single Form AP, as discussed previously in the section "Other Considerations" in the body of this letter, and would alleviate the administrative burden of filing multiple forms by consolidating this information.
3. *Combination of the preceding approaches* – The determination of whether the Form AP deadline would be extended or Form AP would be filed periodically could be dependent on the number of issuers that the firm audits. As an example, if the number of issuers a firm audits is above a certain threshold (e.g., 100 or 200 issuers), then the audit firm could benefit from periodic filing of Form AP by reducing the administrative burden of filing multiple forms. Under this approach, audit firms that audit less than an established threshold of issuers, would benefit from an extended filing deadline for each audit's Form AP filing (e.g.,60 days after the date of the auditor's report).

Feasibility of Proposed Effective Date

Question 12: Assuming the Board adopts a rule during 2015, would it be feasible to make the requirement, either in the auditor's report or on Form AP, effective for auditors' reports issued or reissued on or after June 30, 2016, or three months after the SEC approves the requirements, whichever is later? How much time following SEC approval would firms need to implement the requirement either in the auditor's report or on Form AP?

Assuming the Board moves forward with requiring the identification of the engagement partner and providing certain other audit participant information in Form AP, we believe it would be difficult for audit firms to implement this requirement for auditors' reports issued or reissued on or after June 30, 2016 (or three months after SEC approval). As discussed under "Other Considerations" in the body of the letter, audit firms may need clarification from the PCAOB on issues such as the ability to file multiple auditor's reports on one Form AP and filing Form APs in reissuance circumstances. Also, audit firms will likely need additional time to develop internal systems, processes and quality controls to validate the information, particularly the information on other audit participants and their extent of participation, and determine that it is provided accurately and within the required timeframe.

To allow time for the PCAOB to address the implementation issues raised in this letter, we recommend that the Board either: (1) provide a phased-in adoption approach, in which the engagement partner disclosure in Form AP would be effective for audit reports issued on or after June 30, 2016 (or three months after SEC approval), while the more time-intensive disclosure of other audit participants, including their level of participation, would be effective in the following year or (2) allow adoption one year after the PCAOB finalizes the standard. These suggested changes to the effective date would allow audit firms (and the PCAOB) the necessary time to work through any implementation challenges, including those previously identified in the sections entitled "Other Considerations" in the body of this letter and "*Additional Clarity and Enhancements Suggested to the Disclosure of Certain Other Participants*" and "*Form AP Filing Deadline*" in this Appendix I.

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August 31, 2015

Phoebe W. Brown
Secretary of the Board
Public Company Accounting Oversight board
Office of the Secretary
1666 K Street N.W.
Washington, D.C. 20006-2803

Dear Madame Secretary;

Reference: *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form (PCAOB Rulemaking Docket Matter No. 029)*

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC"),[2] appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*.

CFA Institute is comprised of more than 130,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures provided to investors and other end users is of high quality.

CFA Institute Position on Prior Proposals

CFA Institute has provided feedback to the PCAOB on the disclosure of the engagement partner and other audit participants in our past letters. We refer you to this prior correspondence for specific views, and rationale, regarding what we believe our investor members see as the most appropriate course of action for the PCAOB:

- *Improving Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit (March 13, 2014)*
- *Concept Release on Requiring the Engagement Partner to Sign the Audit Report (January 23, 2012)*

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[1] With offices in Charlottesville, New York, London, Brussels, Hong Kong, Mumbai, Beijing, CFA Institute is a global, not-for-profit professional association of more than 130,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 150 countries, of whom nearly 123,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 144 member societies in 69 countries and territories.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

Consistent with our previous correspondence, a large majority of our members and other investors in U.S. markets believe that disclosure of the name of the audit engagement partner – and disclosure of other participants in the audit – of U.S. issuers is important to enhancing personal accountability and thereby improving audit quality. They also believe that this information should be readily accessible. To this end, investors believe that the name of the engagement partner should be disclosed on the face of the auditor's report. By doing so the information would be disclosed on the only form of communication between the auditor and investor and would be immediately available when the audited financial statements are filed with the U.S. Securities and Exchange Commission (SEC).

In his written remarks regarding the release of the re-proposal, PCAOB Board Member Steven Harris provides the quotations below from a preparer, former accounting standard-setter and investor. Collectively, these key stakeholders agree on the appropriate course of action –which is consistent with our previous correspondence.

> *I am proud to sign on behalf of my company when I sign. And to me . . . it should be the same . . . in terms of the auditing profession. They should be proud too. And to try to put it on some other piece of paper, which is hard to find . . . . I don't quite see the benefit of doing that, versus signing somewhere very visible, like under the opinion.*
>
> Kenneth Goldman
> CFO of Yahoo

> *I firmly believe that the requirement for the auditor to sign in his own name on behalf of the firm improves audit quality and helps the market to identify and weed out weak auditors….The identification of the partner responsible for the audit will focus his mind and give him a greater sense of responsibility—there is no hiding behind a firm's name. He will make absolutely sure that all parts of the audit are done to his satisfaction—including those parts of the audit undertaken by other firms. Ultimately, his reputation is on the line.*
>
> Sir David Tweedie
> Former Chairman of the International Accounting Standards Board
> Former Chairman of the Auditing Practices Committee in the UK

> *I think that there is no simpler or less expensive reform that should and could be put in place than requiring the disclosure of the name of the partner on the engagement. I think nothing sharpens the mind more than a signature.*
>
> Ann Yerger
> Executive Director.
> Council of Institutional Investors

As the quotations above indicate, company management and investors see this issue in the same way.

CFA Institute Comments on Current Proposal
CFA Institute does not oppose providing the information is a supplemental Form AP. Our support for disclosure on Form AP is seen as an incremental step to providing the information to investors. Our support is provided based on the following broad conditions:

- ***File Form AP Sooner Than the Proposed 30 Day Timeframe:*** The name of the audit engagement partner and other audit participants should be filed sooner than the proposed 30 day requirement. We believe, as indicated in our previous correspondence that a main benefit of filing the information on the face of the auditor's report is that the information is immediately accessible. The capital markets react quickly to information disseminated to the investing public and therefore, it is necessary that the disclosure of the engagement partner and other audit participants be provided in a timely fashion. To this end, we believe that the PCAOB should require firms to file Form AP within 10 days of when the audited financial statements are first filed with the SEC. We agree with the Council of Institutional Investors in their letter to the PCAOB dated July 30, 2015, which states:

  > *More timely information makes it more likely that investors will be able to consider the information in connection with their oversight and voting responsibilities as shareowners.*
  >
  > *CII notes that the Board has proposed that firms file Forms AP within a shorter 10-day deadline for initial public offerings. The Board does not appear to provide any basis as to why the shorter 10-day deadline would be impractical for the audits of other companies. Moreover, the Board noted that some commenters suggested a far shorter period than the proposed 30 calendar days, "such as 4 days" following the completion of the audit. CII, therefore, would generally support a deadline of no more than 10 days after the date the auditor's report is first included in a document filed with the Securities and Exchange Commission.*

- ***Search Functionality:*** In order for disclosing the information on Form AP to work effectively for users the information must be easily searchable. We urge the Board not to compromise on this matter given that accessing Form AP is yet another step investors would have to take to retrieve the information.

- ***Accessibility:*** The PCAOB must provide a prominent and easily identifiable location for Form AP. We would object to something like the multiple steps needed to access PCAOB Form 2 for instance, where the information on that form is not easily accessible. We refer you to the blog, *Navigating a Maze: Audit Profession's Solution for Disclosing Engagement Partner* written by Matt Waldron for more information on how investors would access this information on the previous proposal and the obstacles they would face. We think that it should take only a few steps and that Form AP should be prominently featured on the main landing page of the PCAOB website.

- ***Applicability to Audits of All Public Companies:*** Investors do not distinguish matters of audit and audit quality based on size of the company; therefore, we believe that the requirement to File Form AP should apply to audits of all public companies.

CLOSING REMARKS

CFA Institute commends the PCAOB and especially those Board members who have consistently supported investors and other users over the last several years to advance matters of audit quality, of which disclosure of the engagement partner and other audit partners is just one element.

We thank the PCAOB for the opportunity to express our views on this proposal. If the PCAOB has questions or seek furthers elaboration of our views, please contact Matthew M. Waldron by phone at +1.212.705.1733, or by e-mail at matthew.waldron@cfainstitute.org.

Sincerely,

/s/ Kurt N. Schacht

Kurt N. Schacht, JD, CFA
Managing Director
Standards & Financial Markets Integrity Division
CFA Institute

/s/ Ashwinpaul Sondhi

Ashwinpaul Sondhi
Chair
Corporate Disclosure Policy
Council

cc: CFA Institute Corporate Disclosure Policy Council

COLORADO PERA®

August 31, 2015

Ms. Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 029: *Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits (PCAOB Release No, 2015-004).*

Dear PCAOB:

We are submitting the following comments for the PCAOB's consideration in response to a request for comments on the proposed *Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits* (PCAOB Release No, 2015-004). These comments represent my perspective as an institutional investor for a large public pension plan representing more than 500,000 current and retired members and over $44 billion in assets.

The discussion over increasing audit partner transparency has been ongoing for years, and as an institutional investor, I am pleased to see a proposal that considers the needs of the users, creators, and auditors of financial statements. We believe investors are the customers and end users of financial statements and disclosures in the public capital markets and that investors deserve greater disclosure on the audit partners that conduct audits on our behalf. By approving this rule, the PCAOB will help make an important step towards improving investors' confidence in the audited financial statements of U.S. corporations.

As a global investor, it is clear the global audit industry is moving towards better audit partner disclosure, and the U.S. audit industry should at least keep pace, and certainly not fall behind global audit trends. We have seen evidence that audit quality improves after audit partners are required to sign their audit reports, and believe audit quality will also improvement with partner disclosure. There is certainly a risk to rising audit fees if this rule is approved; however, we believe the benefit will out weight the cost to investors. In the U.S., we already require management to provide a certification and sign off on their financial statements; it is time that we also require audit partners to provide an increased level of ownership of their work.

While we are pleased with the compromise to make audit partner's names searchable, we would still prefer to see the partner's name on the auditor's report. This proposed rule does allow the option for audit partners to disclose their names on the auditor's report. We believe this optionality could provide a signal to differentiate corporations on their commitment to corporate governance. If this rule is approved, we will certainly encourage management of our investments to publish the audit partner's name in the auditor's report.

We appreciate the PCAOB for giving us the opportunity to comment on the potential new rules on audit partner disclosure, and would welcome additional opportunities to provide input to the PCAOB as this process continues.

Sincerely,

Jennifer Paquette

Jennifer Paquette
Chief Investment Officer
Colorado PERA

Council of Institutional Investors
The Voice of Corporate Governance

Via Email

July 30, 2015

Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form (PCAOB Rulemaking Docket Matter No. 029)[1]

Dear Madam Secretary:

The Council of Institutional Investors ("CII") appreciates the opportunity to provide comments on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") supplemental request for comment on rules to require disclosure of certain audit participants on a new PCAOB form ("Proposed Rules").[2] CII is a non-profit, non-partisan, association of pension funds, other employee benefit funds, endowments and foundations with combined assets that exceed $3 trillion.[3]

As the leading voice for effective corporate governance and strong shareowner rights, CII believes that accurate and reliable audited financial statements are critical to investors in making informed investment decisions, and vital to the overall well-being of our capital markets.[4] That strong belief is reflected in the following CII membership-approved policy on the "Independence of Accounting and Auditing Standard Setters":

> Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. The efficiency of global markets—and the well-being of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures. The quality, comparability and reliability of that information, in turn, depends directly on the quality of the . . . standards that . . . auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions.[5]

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[1] PCAOB Release No. 2015-004 (June 30, 2015), *http://pcaobus.org/Rules/Rulemaking/Docket029/Release_2015_004.pdf.*
[2] *Id.* at 1.
[3] For more information about the Council of Institutional Investors ("CII"), please visit CII's website at http://www.cii.org/.
[4] Council of Institutional Investors, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (Adopted Oct. 7, 2008), http://www.cii.org/policies_other_issues#indep_acct_audit_standards.
[5] *Id.*

This policy establishes the principle that "investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs."[6] Our membership reaffirmed that principle in 2013 when it approved substantial revisions to our policy on "auditor independence".[7] That policy includes the following provisions that we believe are relevant to issues raised by the Proposed Rules:

> **2.13a Audit Committee Responsibilities Regarding Independent Auditors:** The audit committee should fully exercise its authority to hire, compensate, oversee and, if necessary, terminate the company's independent auditor. In doing so, the committee should take proactive steps to promote auditor independence and audit quality. Even in the absence of egregious reasons, the committee should consider the appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to:
>
> . . . .
>
> - the track record of the lead partners and the extent of their professional commitments, as provided upon request or observable through disclosure or signature of the lead partner on the auditor's report
>
> . . . .
>
> Investors are the "customers" and end users of financial statements and disclosures in the public capital markets. Both the audit committee and the auditor should recognize this principle.
>
> . . . .
>
> **2.13f Shareowner Votes on the Board's Choice of Outside Auditor:** Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor. Such provisions should state that if the board's selection fails to achieve the support of a majority of the for-and-against votes cast, the audit committee should: (1) take the shareowners' views into consideration and reconsider its choice of auditor and (2) solicit the views of major shareowners to determine why broad levels of shareowner support were not achieved.[8]

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[6] *Id.*
[7] Council of Institutional Investors, Corporate Governance Policies § 2.13 Auditor Independence (last updated Apr. 1, 2015), http://www.cii.org/corp_gov_policies#BOD.
[8] *Id.*

Generally consistent with our policies, CII continues to strongly support requiring disclosure in the auditor's report of the signature or name of the engagement partner participating in the audit.[9] As we have previously explained:

> Our support is based on the Council's membership-approved policies. Those policies indicate that information about engagement partners' track record compiled as the result of requiring disclosure of the partner's name in the auditor's report would be relevant to our members as long-term shareowners in overseeing audit committees and determining how to cast votes on the more than two thousand proposals that are presented annually to shareowners on whether to ratify the board's choice of outside auditor.[10]

We, however, would not oppose as an alternative the Proposed Rules' mandated disclosure of the name of the engagement partner in new PCAOB Form AP. While mandated disclosure in Form AP is less likely to capture all of the potential benefits of disclosure of the signature or name in the auditor's report the proposed disclosure would potentially provide for the compilation, access, and review of information about the engagement partner's track record that would be useful to our members as long-term shareowners.[11]

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[9] *See* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Phoebe W. Brown, Office of the Secretary, Public Company Accounting Oversight Board 2 (Aug. 15, 2014) ("As we have indicated in several prior letters to the Board on this topic, the Council strongly supports *requiring* disclosure in the auditor's report of the name of the engagement partner.") [hereinafter Aug. 2014 Letter], http://pcaobus.org/Rules/Rulemaking/Docket029/069c_CII.pdf; *see also* Ann Yerger, Executive Director, Council of Institutional Investors, Statement at the PCAOB's Investor Advisory Group Meeting 148 (Oct. 20, 2014) ("nothing sharpens the mind like a signature or a name on a document . . . requiring this transparency would result in greater accountability. . . . greater due diligence . . . improved audit quality . . . [a]nd in turn, I believe this would strengthen confidence in financial statements"), http://pcaobus.org/News/Events/Documents/10202014_IAG/2014_IAG_Transcript.PDF.

[10] Aug. 2014 Letter, *supra* note 9, at 3 (footnotes omitted).

[11] We note that requiring disclosure of the engagement partner's name or signature in the company's annual proxy statement is also less likely to capture all of the potential benefits of disclosure of the signature or name in the auditor's report and is also generally inconsistent with the language of CII's membership approved policy. *See* § 2.13a Audit Committee Responsibilities Regarding Independent Auditors; *see generally,* Possible Revisions to Audit Committee Disclosures, Securities Act Release No. 9862, Exchange Act Release No. 75,344, 80 Fed. Reg. 38,995, 39,001-07 (concept release July 8, 2015) (discusses and asks whether audit committees should disclose name the engagement partner), *available at* http://www.gpo.gov/fdsys/pkg/FR-2015-07-08/pdf/2015-16639.pdf; Francine McKenna, Regulators Issue Competing Proposals for Audit Partner Disclosure, MarketWatch 1 (July 7, 2015) (describing how the Securities and Exchange Commission and the Public Company Accounting Oversight Board are "at odds over the best way for public companies to disclose the name of their lead audit partner"), http://www.marketwatch.com/story/regulators-issue-competing-proposals-for-audit-partner-disclosure-2015-07-07.

Our more detailed views in response to select questions contained in the "Opportunity for Public Comment" section of the Proposed Rules follows:[12]

1. Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?[13]

While CII does not oppose disclosure on Form AP, it generally agrees with the Board that the Proposed Rules may not achieve the same potential benefits of transparency and an increased sense of accountability as would be achieved by mandatory disclosure in the auditor's report.[14] More specifically, CII agrees that disclosure in the auditor's report would be more transparent because (1) the "required information would be disclosed in the primary vehicle by which the auditor communicates with investors and where other information about the audit is already found . . . . and [(2) the information] would be available immediately upon filing with the SEC of a document containing the auditor's report."[15]

In addition, CII agrees that disclosure in the auditor's report, as compared to disclosure in Form AP, would increase an engagement partner's sense of accountability because the "engagement partner would be involved in the preparation of the auditor's report, but may not be involved in the preparation of the form."[16] Finally, as CII has previously indicated, it is important to emphasize that the:

> Council's position in favor of requiring disclosure in the auditor's report of the name of the engagement partner is generally supported by, among other sources, the recommendations and conclusions of the U.S. Department of Treasury's Advisory Committee on the Auditing Profession, the growing body of empirical research indicating that the requirement would enhance investor protection and provide useful information to investors, and the more than eight years of experience with a similar requirement in the European Union.[17]

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[12] PCAOB Release No. 2015-004 at 16-18.
[13] *Id.* at 16.
[14] *Id.* at A2-25, A2-26 (describing "benefits to market participants related to timing and visibility of the disclosures" from a required disclosure of the name of the engagement partner in the auditor's report).
[15] *Id.* at A2-25.*; see, e.g.,* Francine McKenna at 2 ("The PCAOB hosted database would be new and its site is not currently a regular stop for investors and others researching hundreds of thousands of companies in a short time period.")
[16] PCAOB Release No. 2015-004 at A2-25.
[17] Aug. 2014 Letter, *supra* note 9, at 2 (footnotes omitted); *see* PCAOB Release No. 2015-004 at A2-9, A2-10, & A2-11 (providing additional empirical evidence generally indicating that disclosure of name of engagement partner could be beneficial to investors).

5. What search criteria and functionality would users want for information filed on Form AP? What additional criteria and functionality beyond what is described in Section IV of this release would be useful? Would third-party vendors provide additional functionality if the Board does not? Are there cost-effective ways to make the disclosure more broadly accessible to investors who may not be familiar with PCAOB forms?[18]

CII generally agrees with the Board that "[r]equiring disclosure in a separate PCAOB form may decrease the chances that investors and financial statement users would seek out the information."[19] CII also agrees that disclosing the name of the engagement partner in the auditor's report, as opposed to Form AP, provides "certain benefits to market participants related to timing and visibility of the disclosures."[20]

CII also agrees with the Board that the proposed "Form AP approach may . . . require more effort for investors to find the information, and it thereby could impose higher search costs in some instances, given that the auditor's report is the existing vehicle by which the auditor communicates with investors and is the place where other information about the audit is already found."[21] Thus, the search criteria and functionality of the information filed on Form AP is an important issue for investors and other potential users of the information.

CII believes the search criteria and functionality that investors and other users would likely want for the proposed information filed on Form AP include ease of access and the ability to download the search results. More specifically, to ensure ease of access we believe that no more than three steps should be required for investors and other users to navigate from the PCAOB home page to the search results. On this point, we agree with Matt Waldron of the CFA Institute, who has illustrated how a seven step process to obtain disclosure about the engagement partner from the PCAOB's Website, as some had previously proposed, is neither transparent nor accessible.[22]

CII also believes that the functionality of the Form AP approach should allow investors and other users to download the search information results. The ability to download the information would likely facilitate the use of the information by third party vendors.[23]

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[18] PCAOB Release No. 2015-004 at 16-17.
[19] *Id.* at A2-27.
[20] *Id.* at A2-25.
[21] *Id.* at 17.
[22] Matt Waldron, Navigating a Maze: Audit Profession's Solution for Disclosing Engagement Partner, Market Integrity Insights, Views on the Integrity of Global Capital Markets, CFA Institute 3 (Mar. 11, 2014), http://blogs.cfainstitute.org/marketintegrity/2014/03/11/navigating-a-maze-audit-professions-solution-for-disclosing-engagement-partner/.
[23] *See, e.g.,* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board 3 (Mar. 17, 2014) ("We believe such disclosure would result in databases or compilations of information about the engagement partner that would be useful to investors."), http://www.cii.org/files/issues_and_advocacy/correspondence/2014/03_17_14_CII_letter_to_PCAOB_improving_audits.pdf.

As indicated by the Board, those vendors could then link the engagement partner data to "other data points"[24] which, among other benefits, would "provide investors with a more precise signal about the quality of the audit and, therefore, the reliability of the financial statements."[25]

6. Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP? Should the deadline be shorter or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (*e.g.*, 60 days) in the first year of implementation? Should the 10-day deadline apply whenever the auditor's report is included in a Securities Act registration statement, not just in the case of an IPO?[26]

CII generally believes that the proposed 30 calendar days after filing of the auditor's report is too long for firms to file Forms AP. As indicated, we agree with the Board that one of the benefits of our preferred approach of disclosing the name of the engagement partner in the auditor's report is that it provides the information on a more timely basis.[27] More timely information makes it more likely that investors will be able to consider the information in connection with their oversight and voting responsibilities as shareowners.[28]

CII notes that the Board has proposed that firms file Forms AP within a shorter 10-day deadline for initial public offerings.[29] The Board does not appear to provide any basis as to why the shorter 10-day deadline would be impractical for the audits of other companies.[30] Moreover, the Board noted that some commentators suggested a far shorter period than the proposed 30 calendar days, "such as 4 days" following the completion of the audit.[31] CII, therefore, would generally support a deadline of no more than 10 days after the date the auditor's report is first included in a document filed with the Securities and Exchange Commission.

8. Does Form AP pose any specific issues for EGCs? Would disclosure of the required information on Form AP promote efficiency, competition, and capital formation if applied to EGCs? If so, how? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard? Would creating an exemption for audits of EGCs benefit or harm EGCs or their investors? Why?[32]

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[24] PCAOB Release No. 2015-004 at A2-4.
[25] *Id*. at A2-6.
[26] *Id.* at 7.
[27] *Id.* at A2-25 ("The required information would be disclosed in the primary vehicle by which the auditor communicates with investors and whether other information about the audit is already found, and would be available immediately upon the filing with the SEC of a document containing the auditor's report.")
[28] Aug. 2014 Letter, *supra* note 9, at 3 (Noting that in the "midst of the 2013 proxy season" there was a lack of timely and complete information about an engagement partner who was "separated from KPMG for his involvement in providing non-public client information to a third party in exchange for cash.").
[29] PCAOB Release No. 2015-004 at 8.
[30] *Id.* at 8-9.
[31] *Id.* at 8.
[32] *Id.* at 17.

CII generally believes that the Proposed Rules, if adopted, should be applicable to the audits of all public companies, including emerging growth companies ("EGC"). We are currently unaware of any legitimate basis for excluding the audits of EGC from the Proposed Rules.[33]

We agree with the Board that the Proposed Rules' disclosure should benefit companies and their investors in the form of "a lower cost of capital relative to those companies whose auditor's performance record suggests a higher risk."[34] As indicated by PCAOB Chairman Doty, the Board's conclusion is supported by, among other sources, the experience in many foreign jurisdictions where the identity of the engagement partner has long been provided to investors.[35]

CII appreciates your consideration of our views in response to the Proposed Rules. Please do not hesitate to contact me if you have any questions or would like any additional information about the content of this letter.

Sincerely,

Jeff Mahoney

Jeff Mahoney
General Counsel

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[33] *See, e.g.,* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board 3 (Dec. 16, 2013) ("Opposing an exemption for audits of emerging growth companies in connection with PCAOB Rulemaking Docket Matter No. 034), http://pcaobus.org/Rules/Rulemaking/Docket034/222b_CII.pdf.
[34] PCAOB Release No. 2015-004 at A2-6.
[35] James R. Doty, Chairman, PCAOB, Statement on the Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on New PCAOB Form 1-2 (June 30, 2015) ("studies . . . show that disclosure of the name of the audit engagement partner has made a difference in foreign markets"), http://pcaobus.org/News/Speech/Pages/06302015_Doty_Transparency.aspx.

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August 5, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

RE: Statement of Legal Considerations Related to PCAOB Rulemaking Docket Matter No. 029, *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*

Dear Madame Secretary:

I am Brainerd Currie Professor of Law, School of Law, Duke University where my research and teaching focuses on securities and corporate law. Prior to joining the Duke faculty in 1979, I taught at Boston University, University of San Francisco, University of California, Hastings College of the Law, and Stanford University School of Law. I am currently a member of the Standing Advisory Group of the Public Company Accounting Oversight Board. In the past, I was a member of the New York Stock Exchange Legal Advisory Committee, the National Association of Securities Dealers Legal Advisory Board, and the Committee of Corporate laws of the Business Law Section of the American Bar Association. Among my publications are Securities Regulations: Cases and Materials (7th ed. Aspen 2013)(with Langevoort and Hillman), which has been adopted in approximately two-thirds of American law schools, and a multi-volume award winning treatise, The Law of Corporations (3d ed. 2010)(with Hazen). The views I express here are my own and are not on behalf or to be attributed to any of the before-mentioned organizations.

Currently the audit opinion letter bears only the signature of the audit firm and not the signature of the particular professional in charge of that engagement (the engagement partner). In this submission I review a variety of legal issues related to the impact of expanding the opinion letter to include identification of the engagement partner. The focus of this analysis is on the federal securities laws and not state fraud laws. This reflects the premise that it is liability under the federal securities laws and not state law that is of most import. This premise reflects that materially misleading audited financial statements of public companies elicit class action proceedings that are most frequently guided solely by federal law. The dominance of federal law in such litigation is a consequence of the Securities Litigation Uniform Standard Act of 1998 (SLUSA) that enables defendants to remove class actions in "covered securities" to federal court; once the action is in federal court, federal, not state, principles shape the rights of plaintiffs and the defenses of defendants. Nonetheless, in the rare instance of a non-class action suit against the engagement partner, that partner's signing or not signing the opinion letter is of no consequence in determining the auditor's or his/her firm's liability to a relying plaintiff. That is, changing auditing procedures to require the engagement partner to sign or otherwise identify himself/herself will not change the contours of the auditor's liability under existing state law.

The predominant provisions of securities fraud suits for misleading audited financial statements are Section 11 of the Federal Securities Act, Section 10(b) and Rule 10b-5 under the Securities Exchange Act, Section 18 of the Securities Exchange Act, and the control person provision that private remedies in both the Securities Act and the Securities Exchange Act. Of these provisions, Section 11 is widely and correctly understood as the securities law provision that imposes the most demanding standard of conduct on auditors.

Audit Partner Liability under Section 11 of the Securities Act

Under Section 11(a)(4), audit firms presently are subject to liability for material omissions or misstatements in their audited statements when the registration statement becomes effective. Audit firms are liable as an "expert," which requires that among the exhibits to the registration statement there is a letter from the audit firm consenting to be identified as an expert with respect to the financial statements so audited. Section 11(b)(3)(B) provides that any expert is liable, unless the expert bears the burden of establishing that:

> (i) he had, after reasonable investigation, reasonable ground to believe and did believe, at the time such part of the registration statement became effective, that the statements therein were true and that there was no omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) such part of the registration statement did not fairly represent his statement as an expert or was not a fair copy or extract from his report or valuation as an expert….

The above quote sets forth the so-called "due diligence" defense. Because the defense to liability demands a "reasonable investigation," it is akin to a negligence standard as it requires the auditor to undertake a searching inquiry of the type typically associated with auditing standards. So understood, there is no reason to believe that exposing the engagement partner to Section 11 liability changes the substantive or procedural requirements of generally accepted auditing standards. The due diligence standard of Section 11 complements the undertaking demanded by generally accepted auditing standards. The effect of the engagement auditor becoming an "expert" under Section 11 would be that the partner would be liable under Section 11 unless s/he established all the elements of the above-quoted due diligence defense - a standard that mirrors the common law and professional undertakings of being an auditor.

As a technical matter, engagement partners cannot be identified as or deemed an expert unless the SEC amends its rules to require the engagement partner to be identified as among the issuer's experts; the SEC would also have to act to provide that its rules require the engagement partner to consent to be identified as an expert. As with current practice for the auditing firm, the consent would be among its exhibits to the registrant's materials filed with the SEC. This conclusion would appear mandated by any fair reading of Section 7 of the Securities Act which requires that an expert must consent to be deemed an expert. This conclusion is based on the following from Section 7:

> If any accountant . . . is named as having prepared or certified any part of the registration statement . . . the written consent of such person shall be filed with the registration statement.

Therefore, if the PCAOB acts to require the engagement partner to sign or otherwise be identified with the audit opinion that is included in a '33 Act registration statement, such signature or identification alone would not render the engagement partner liable under Section 11; before liability can be extended to an engagement partner the SEC would have to complete the regulatory circle by amending its rules to complement Section 7 of the Securities Act.

Audit Partner Liability under Section 10(b) and Rule 10b-5

` Much of the private litigation against auditors has been under Section 10(b) and Rule 10b-5. Unlike Section 11's "due diligence" standard, liability under Rule 10b-5 requires conduct that is at least recklessness. This standard not only means an extreme departure from the standard of reasonable care but requires as well deliberateness on the defendant's part in the form of a conscious embrace of a substantial risk that a statement s/he makes is materially misleading. The standard, therefore, has an element of consciousness of a disclosure violation; for this reason this element is customarily referred to as the scienter requirement for Rule 10b-5. After the Private Securities Litigation Reform Act of 1995, the complaint instituting a Rule 10b-5 suit must not only allege with particularity facts supporting the allegation that the defendant acted with scienter but those facts must also support a "strong inference" the defendant acted with scienter. Courts have consistently held that an auditor's failure to act consistent with generally accepted accounting principles and/or to employ generally accepted auditing standards alone does not constitute scienter.

Liability under Rule 10b-5 does not extend to "aiders and abettors" but only to primary participants. The definition of a primary participant is currently subject to some uncertainty, discussed below. In holding there is no aiding and abetting liability in Rule 10b-5 actions, the Supreme Court in *Central Bank of Denver v. First Interstate Bank,* 511 U.S. 164 (1994), reasoned Rule 10b-5 proscribed only the "*making* of a material misstatement (or omission)." The court nonetheless observed:

> The absence of § 10(b) aiding and abetting liability does not mean that secondary actors in securities markets are always free from liability under the securities acts. Any person or entity, including a lawyer, accountant, or bank, who employs a manipulative device or *makes* a material misstatement (or omission) on which a purchaser or seller of securities relies may be liable as a primary violator under 10b-5, assuming all the requirements of primary liability Rule 10b-5 are met. In any complex securities fraud, moreover, there are likely to be multiple violators. . . .

Id. at 191 (emphasis added).

As can be seen, "make" is the operative verb in *Central Bank of Denver*; a primary violator is the individual who *made* the misrepresentation that is the heart of the claim of fraud. The most authoritative guidance on the meaning of "make" is *Janus Capital Group Inc. v. First Derivative Traders*, 131 S. Ct. 2296 (2011):.

> For the purpose of Rule 10b-5, the maker of a statement is the person or entity with ultimate authority over the statement, including its content and whether and how to communicate it. . . . One who prepares or publishes a statement on behalf of another is not its maker. *And in the ordinary case, attribution within a statement or implicit from surrounding circumstances is strong evidence that a statement was made by . . . the party to whom it is attributed.*

Id. at 2302 (emphasis added). There have been no case holdings on auditors as primary participants under *Janus Capital.* If the engagement partner did sign the audit opinion, it would thereby allow third party users of the financial statements to attribute the financial statements covered by that signed opinion letter to the signing engagement partner.

It is not clear what the result will be reached under Rule 10b-5 for an engagement partner who is not identified in the audit opinion. The uncertainty to this question arises on several levels. First, in applying *Janus Capital,* it is not clear how the question of who has the ultimate authority for the release/publication of the audited financial statements. When there is no way to attribute the statement directly to the individual auditor, i.e., the engagement partner is not identified, we then must rely on the "ultimate authority" standard. Under this standard, it would appear that the ultimate authority would rest elsewhere than the engagement partner. For example, the filing of Form 10-K requires a series of signatures, including the majority of the directors, to be filed. Do we conclude that ultimate authority rests with the signatories of the audit client? Thus, were only the "ultimate authority" standard tobe applied, it is uncertain whether *Janus Capital* would insulate the audit firm and its engagement partner. However, if both the firm and the engagement partner sign the audit opinion letter, a more persuasive argument is that *Janus Capital* would treat the signing audit firm and its engagement partner as primary participants consistent with the "attribution" reference in the italicized portion of the quote from *Janus Capital*.

A second level of uncertainty is whether the focus on "make" is narrower than all possible claims that can be asserted under Rule 10b-5. That is, there are three broad proscriptions in Rule 10b-5 and only one of those clauses uses the verb "make." Rule 10b-5 provides:

> It shall be unlawful for any person . . .
>
> (a) to employ any device, scheme, or artiface to defraud,
> (b) to *make* any untrue statement of material fact or to omit to state a material fact necessary in order to *make* the statements *made*, in light of the circumstances under which they were *made*, not misleading, or
> (c) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceipt upon any person,
>
> in connection with the purchase or sale of any security. (emphasis added)

The distinction in operative verbs among the three parts of Rule 10b-5 was recently invoked by three of the five SEC Commissioners, as well as two intermediate courts, to extend Rule 10b-5 beyond *Janus Capital*. *In the Matter of John P. Flannery & James D. Hopkins,* Sec. Act. Rel. No. 9869 (Dec. 15, 2014). *See also* SEC v. Monterosso, 756 F.3d 1326 (11th Cir. 2014)(reading *Janus* as interpreting only that clause in Rule 10b-5 that references "make" with the consequence that SEC was successful in establishing defendants in enforcement action were primary participants even though they lacked ultimate control over release of misleading information); Prousalis v. Moore, 751 F.3d 272 (4th Cir. 2014)(*Janus* ultimate authority test does not define primary participant in a criminal proceeding). If *Janus'* ultimate responsibility standard is cabined to only Rule 10b-5(b) that refers to the "making" of an untrue statement, it could result in a fraudulent engagement partner being deemed a primary participant, even though the engagement partner is not identified in the audit opinion. This outcome, however, depends on whether courts employ an attribution standard whereby a primary participant must be sufficiently identified with the false statement so that a third party can attribute that statement to that defendant. *See e.g., Wright v. Ernst & Young LLP*, 152 F.3d 169 (2nd Cir. 1998). This was the approach across most circuits before *Janus* was decided. Under such an attribution standard, an engagement partner who is not identified with the misleading financial statements would not be a primary participant. Before *Janus* was decided, a minority of the circuit courts applied the broader "substantial participant" standard to impose liability on individuals who drafted misleading statements even if the statements could not be attributed to the auditor. *See e.g., Anixter v. Home-Stake Production Co.*, 77 F.3d 1215 (3d Cir. 1994). On the whole, it would appear that a requirement that the engagement partner sign or otherwise be identified would likely increase the risk of personal liability under Rule 10b-5 for the signing engagement partner this conclusion is qualified by the uncertainty whether both the *Janus* and attribution standards will ultimately prevail as the boundaries of Rule 10b-5 continue to evolve.

Audit Partner Liability under Section 18

Section 18 of the Securities Exchange Act imposes liability on "any person who shall make or cause to be made any statement in" a filing with the SEC. Courts have not held that *Janus'* ultimate authority approach to "make" or "made" applies to actions under Section 18. An engagement partner could well be deemed a person who makes such a statement and this determination would appear unrelated to whether the engagement partner signed or is otherwise identified with the false audit opinion. This result would follow by distinguishing the making of the misleading statement itself from the making of the filing. The literal reading of Section 18 refers to the former but not the latter. In contrast, under *Janus'* construction of Rule 10b-5, the Court's focus was on the publication or circulation of the misleading statement, not who prepared or wrote the particular misleading statement. If focus is on making the statement rather than making the filing, the absence of the auditor's signature on the opinion letter is of no consequence.

Because Section 18 requires the plaintiff to make an affirmative allegation of reliance, it is not possible for claims raised under Section 18 to be aggregated in a class action. Nonetheless, Section 18 is frequently resorted to by so-called "opt outs," who are invariably institutional investors who have suffered large losses as a result of the misrepresentation. The institution's loss is large enough so that as a practical matter the claim can be pursued independently, i.e., aggregation with the claims of others is not necessary to justify the expected costs of pursuing the claim. Among the advantages of Section 18, despite burdening the plaintiff with an affirmative requirement of reliance, is the plaintiff's complaint does not have to allege a "strong inference" of fraud as applies in Rule 10b-5 suits; the element of the defendant's knowledge enters the case as part of the defendant establishing "he acted in good faith and had no knowledge that such statement was false or misleading." In sum, there is a very good likelihood of individual liability under Section 18 of a non-signing engagement partner; thus, a new requirement that the engagement partner sign the opinion letter, or otherwise be identified, would have not alter the auditor's liability exposure.

Control Person Liability

Each provision of the securities laws provides that a person who controls another who commits a violation is liable as a control person. The control person liability provision for the Securities Act is set forth in Section 15. Securities Exchange Act Section 20(a) also imposes liability on control persons. There does not appear to be much chance that an engagement partner would be deemed a control person of the partner's audit firm and certainly would not be a control person of the audit client. In any case, signing the audit opinion has no impact on whether the auditor would be a control person.

To begin the analysis, Section 15 of the Securities Act imposes liability on anyone who controls a person liable under Section 11. Thus, if an audit firm is liable under Section 11 then a person who controls the audit firm can be also liable. However, at least in the case of Big 4 or second-tier public accounting firms, the engagement partner is unlikely to be deemed to "control" the employing audit firm. Control has been defined in the courts to require that a person to be a control person have actually exercised control over the operations of the wrongdoer (e.g., primary violator) generally and have had the potential or power to have controlled the specific wrongful transaction itself. *See e.g.*, Metge v. Baehler, 762 F.2d 621, 630-631 (8th Cir. 1985). The engagement partner likely meets the latter but not the former. However, if the accounting firm is quite small, it could be possible that the engagement partner would have both exercised control over the accounting firm and have at least had the potential to control the audit that was fraudulent. To my knowledge, the control person provision has never been successfully invoked against an engagement partner. In both events - when the engagement partner does not control or does control the audit firm – the signing the audit letter has no consequential effect on the auditor's liability as a control person.

I am hopeful that the above overview of the liability standards that surround the audit opinion letter, and more particularly the additional risk to the engagement partner, if any, of the PCAOB requiring the engagement partner to sign the audit opinion or otherwise be identified as the engagement partner, will be helpful to the PCAOB as it considers this matter of great importance to the users of audited financial statements.

Sincerely,

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Re: PCAOB Rulemaking Docket Matter No. 029
Supplemental Request for Comment: Rules to
Require Disclosure of Certain Audit Participants
on a New PCAOB Form, PCAOB Release No. 2015-004

Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (Proposal) and commends the Board for its additional outreach to gather information about auditors and the audit process.

The Board's proposal focuses on the requirements to disclose the identity of the engagement partner, the identification of other audit firms through use of the proposed PCAOB Form AP - *Auditor Reporting of Certain Audit Participants* and also removes the previously proposed disclosure related to nonaccounting firm participants. As described in our letter to the Board dated February 12, 2014, regarding the initial PCAOB Rulemaking Docket Matter No. 029 *Improving The Transparency of Audits: Proposed Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*; we recognize that some financial statement users may find value in the disclosure of the engagement partner, however, we continue to have concerns that this information may be interpreted to imply that audit quality resides with the engagement partner as opposed to representing the collective efforts of the engagement team and the firm, through all of its quality assurance processes.

In relation to the other key objectives in the Proposal, we support the disclosure of other auditors used in the course of the audit, as we agree the information is meaningful to financial statement users when the percentage of that effort represents a significant amount of the overall audit effort, and we support the Board's decision to eliminate the previously proposed disclosures related to nonaccounting firm participants.

If the Board concludes that disclosure of the identification of the audit partner as described in the Proposal is necessary, we support Form AP as the mechanism for this disclosure. We support the use of this proposed form as it removes the consent requirements for the engagement partner, as well as other auditors involved in the audit, and removes the other implications and consequences associated with providing consents. The approach described in the Proposal also eliminates the logistical challenges of obtaining consents, and it may reduce potential litigation matters that could arise when compared to including this information in the auditor's report. In addition, providing the proposed disclosures on Form AP achieves virtually the same level of transparency as disclosure in the audit report. By providing Form AP in a centralized location on the PCAOB's website, investors and users have access to the same information, in one primary location, enhancing the usability of the data. While we support the proposed form AP, we offer the following considerations:

- Increase the threshold for disclosure of other auditors from 5% to 20% to align with current definitions of "substantial role" as defined in PCAOB Rule 1001.
- Extend the deadline for filing Form AP for all audits to address practical challenges related to compliance with the proposed requirements.
- Change the triggering date for reporting Form AP from the auditor's report date to a month end date and allow for one Form AP for multiple audits.
- Remove the requirement to file Form AP for reissuance of the auditor's report unless the date of the auditor's report changes, there is a new engagement partner, or there is a significant change to the percentage of other auditor's hours.
- Remove the requirement to file Form AP for non-issuer brokers and dealers.
- Extend the effective date beyond the proposed date of June 30, 2016.
- Consider the SEC's project on Possible Revisions to Audit Committee Disclosures; and
- Provide implementation guidance.

The above observations are discussed in further detail below and are based in part on the belief that the new disclosures will not be immediately useful upon filing, as multiple data points on audit partners and other audit firms involved in the audit will need to be accumulated over time to identify trends. This belief is consistent with the Boards belief as described on page A-2 of the Proposal "...over time, these and other efforts may provide additional information that may allow investors and other financial statement users to better evaluate audit quality..." Accordingly, we believe the timing of the disclosures can be extended beyond what is included in the Proposal.

Align other auditor disclosures to current definitions

As indicated above, we agree that the disclosure of other auditors used in the course of an audit is meaningful information to users of the financial statements when the percentage of that effort represents a significant amount of the overall audit effort. We believe utilizing existing PCAOB definitions will allow for consistency between PCAOB rules and more efficient implementation of the requirements with an appropriate balance between benefit and cost. Specifically, we believe the threshold for disclosure of other auditors should be aligned with the PCAOB's existing definition of "substantial role" resulting in an increase in the proposed threshold from 5% to 20%. Information provided at a level below 20% would consist of information below the threshold for "material services" as defined by PCAOB Rule 1001 and may result in disclosures that would no longer provide an appropriate balance between cost and benefit.

In addition, we believe other auditors included in the firm's network provides valuable information as to the relationship between the firm and the other network auditors. Most networks have standards for audit quality and controls to monitor compliance with these standards resulting in less differentiation in the audit process between network firms as compared to out of network firms. Based on the modest differentiation in the audit process between the firm and a network auditor, if the Board does not raise the threshold for all auditors to 20% to align with current definitions of substantial role and material services, we suggest increasing the threshold to 20% for network firms and 10% for out-of-network firms.

Practical challenges

Regardless of the threshold for disclosing other auditors, there are practical challenges impacting the accumulation of the data and thus necessitating a time frame greater than the proposed 30 days for non-initial public offering audits and an even greater challenge for the proposed 10 days for initial public offering (IPO) audits. For instance, after the issuance of the auditor's report, hours may continue to be incurred up and through the 45-day window allowed under the audit documentation standards. The time incurred during the 45-days is generally insignificant to the overall audit, however, it will result in inaccurate reporting if it is not included. Furthermore, the issuing firm will be dependent on the hourly information received from the other auditors. Systems of capturing hours are different among firms. Some firms have a sophisticated time tracking system while others have a less robust system which could lead to delays in other auditors providing this information. As a result, 30 days would not be sufficient to obtain the data, review it and submit Form AP; and even less sufficient for the 10-day requirement for IPOs. We suggest increasing the timing for non-IPO filings to 60-days to allow for sufficient time to compile the data after the 45-day requirement has concluded under the audit documentation standards.

We recognize the above recommendation does not accommodate IPOs, and therefore acknowledge that the date may need to be triggered from the IPO filing date in many circumstances, though we believe the considerations discussed above and throughout this letter should be considered when concluding on the appropriate number of days. In addition, for some IPOs, the audits are concluded shortly before filing, as such we recommend the Board reconsider the 10-day requirement to file Form AP, and at a minimum extend the requirement to report other auditors used to be consistent with the recommendation described above, or alternatively allow for an amendment to Form AP within 60 days of the initial filing to add the other auditor information.

Monthly reporting and one Form AP for multiple audits

In addition to extending the timing of filing Form AP described above; as proposed a separate Form AP is required to be filed for each issuance of the auditor's report (though the Proposal does allow for a minimal amount of combining). Basing the filing requirement on the auditor's report date and requiring a separate form for each issuance of the auditor's report creates additional compliance costs. The timing of each Form AP will commence at different points in time and occur primarily during peak audit times. Building an environment where each form has the possibility of being filed at a different time will increase the frequency of submissions; create a need to develop a more complex monitoring system; and increase the risk of compliance failure. We recognize the embedded functionality of the PCAOB submission process to include multiple forms in one submission, however, this ability only provides modest administrative burden relief as the data for each issuance of an audit report will not be available in a similar timeframe to review.

As an alternative, we suggest the Board consider developing a system that would allow for 1) the filing deadline to be driven by a month-end date as opposed to the audit report date and 2) one Form AP to be submitted for multiple audit reports. This system would be similar to the current PCAOB process for reporting changes in licenses. For example, assume 50 audit reports were issued in the month of March. Using the filing deadline based on the auditor's report date, the firm representative needs to individually review 50 Form APs, physically sign each one and accumulate the individual Form APs for submission. Alternatively, based on our proposed method, the firm representative submits one report for all 50 audits 60 days after March 31. We acknowledge this alternative method results in information for some audits taking 91 days to reach the market assuming an audit report was issued on March 1. However, allowing for a month end filing deadline and including multiple audits in one Form AP will reduce the administrative burden.

As described in the section on Practical Challenges, we recognize that IPOs may need different consideration, however, would encourage the Board to consider whether the multiple report option could also be used for IPOs.

We believe the proposed approach is an acceptable reporting alternative for all firms. However, recognizing that not all firms have the same volume of audit reports issued during a year and the same related administrative burden, the Board may want to consider whether the proposed alternative should be applied based on the number of audit reports issued by the firm. To the extent volume is a consideration, we suggest using a threshold consistent with the frequency of PCAOB inspections or 100 audit reports.

Re-issuance of the auditor's report

The Form AP instructions state that a Form AP is to be filed "for each audit report issued pursuant to PCAOB standards for the audit of an issuer or broker dealer...", and we understand that the requirement extends to the reissuance of the auditor's report. We support refiling a Form AP with the reissuance of the auditor's report when the information in the Form AP has significantly changed, such as a new engagement partner, a significant change in the percentage of the other auditor's hours, or a change to the audit report date. However, we recognize there are many situations such as shelf offerings or subsequent amendments to a registration statement filing in which the required information would not significantly change or change at all. We recommend the Board only require a new Form AP when there is a significant change in information in the original filed Form AP upon reissuance of the auditor's report.

Remove requirement for non-issuer brokers and dealers

As proposed, the Form AP requirements will apply not only to issuer brokers and dealers but also non-issuer brokers and dealers. Non-issuer brokers and dealers are generally closely-held organizations or subsidiaries of another entity (parent company). In these situations, we do not believe the users of the financial statements would find the disclosures of Form AP relevant. Investors generally do not invest directly in a broker and dealer but rather in the parent company, to the extent the parent company is also a public entity. Additionally, if a parent company does not exist, there is generally no market to trade the stock of non-issuer brokers and dealers. We recommend the Board exclude non-issuer brokers and dealers from the filing requirements of Form AP.

Extend the effective date

The Proposal currently includes an effective date for audit reports issued or reissued on or after June 30, 2016. We believe there are a number of issues that need to be resolved and/or clarified by the Board before firms can begin to establish processes to track, compile and monitor the data, as well as perform quality assurance on the data, therefore we believe the effective date should be at a minimum one year beyond the proposed effective date.

Consideration of the SEC project on Audit Committee disclosures

The SEC has also issued a concept release on "Possible Revisions to Audit Committee Disclosures", which includes possible disclosures of similar information contained within the PCAOB's proposal. We believe the PCAOB should coordinate with the SEC on determining the best location for these disclosures. Should the outcome of that analysis result in the information to be reported by both the auditor and the audit committee, we recommend consistency of the information and in the manner it is determined, for example as it relates to other auditors.

Implementation Guidance

We believe there are certain areas within the Proposal where additional implementation guidance would be helpful. The following describes those areas.

- It is unclear as to the signing firm's responsibility to ensure the accuracy of the hours reported by the other auditors. This information will be directly obtained from the other auditors, and the signing firm is dependent on the accuracy of the other auditors' reporting. This is an area that has not been subject to oversight by the signing auditor in the past, and it would be difficult for a firm to be able to verify the accuracy of the systems and information from other auditors. We request the PCAOB address this matter in the final document.
- There are situations in which tracking and accumulating hours becomes more complex and general guidelines would be beneficial. For example, during an IPO there may be re-audits of prior periods to change the prior audits from AICPA standards to PCAOB standards. In Part IV of Form AP the instructions indicate "...the calculations should be based on the percentage of audit hours attributable to the audits or audit procedures performed by such firms in relation to the total audit hours for the periods identified in Item 3.1.c." It is not clear from the instructions if the hours

from the prior period audits include the hours from the AICPA audit or just the additional procedures performed to change from the AICPA standards to PCAOB standards.

- Hours incurred with respect to other registration statements can also become convoluted as the most recent audit report is reissued in connection with the registration statement, and audit procedures performed with the reissuance may have been performed concurrently with a current period interim review performed under AU 722. It is unclear how to separate the procedures to reissue the prior period audit report from the current period review procedures.
- Certain engagements include combined financial statement and statutory audits, whereby hours will be difficult to monitor and track separately as generally the audits are performed as a single audit, and therefore hours would be very difficult to allocate to the respective effort.
- While there are a number of implementation questions related to the Proposal and the request for further guidance, we recommend the Board consider whether the ability to provide for amended filings of Form AP could be a possible solution in some situations. While we would not recommend amendments to address many issues, as that could also create further administrative costs, the ability to amend filings would be helpful to include in the final standard.

Given the wide range of potential scenarios that will be encountered during the Form AP reporting process, we ask the Board to consider developing general guidelines on computing, tracking and monitoring hours and responsibility for accuracy over hours reported by other auditors.

Crowe Horwath LLP supports the PCAOB's efforts to improve public company auditing standards and the due process to ensure proposed standards result in such improvement, mindful of cost benefit considerations and the avoidance of unintended consequences. We would be pleased to respond to any questions regarding our comments. Should you have any questions please contact James A. Dolinar at (630) 574-1649 or Michael Yates at (575) 236-7644.

Sincerely,

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Re: PCAOB Rulemaking Docket Matter No. 029.

Deloitte & Touche LLP ("D&T") is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the "PCAOB" or the "Board") on its *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (the "supplemental request"); PCAOB Release No. 2015-004; and PCAOB Rulemaking Docket Matter No. 029 (June 30, 2015).

EXECUTIVE SUMMARY

As stated in our prior comment letter to the Board,[1] we support transparency regarding the audit process, auditor responsibilities, and related quality controls in the interest of promoting the protection of investors and the effective functioning of the capital markets. The more information of value that auditors are able to provide to the users of financial statements, the greater the value and relevance audits will have to the capital markets. Additional transparency regarding the audit also stands to enhance investor confidence in the rigor of the independent audit process.

We acknowledge and appreciate the substantive efforts of the PCAOB to address concerns and suggestions raised in previous comment letters submitted to the PCAOB on this topic. We are supportive of the alternative approach the Board has put forward in its supplemental request to disclose the name of the engagement partner and information regarding certain other participants in the audit on a new PCAOB form, *Auditor Reporting of Certain Audit Participants* ("Form AP"), as opposed to including such information in the auditor's report. We believe the alternative presented results in achieving the overall objective of providing transparency regarding participants in the audit, while at the same time providing easy access to such information and alleviating many of the practical issues, including those related to the need to obtain consents, previously highlighted by us and others in prior comment letters submitted to the PCAOB.[2]

[1] See D&T's letter to the PCAOB in response to the PCAOB's *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*, February 3, 2014 (D&T 2013-009 Release letter).

[2] See comment letters re: Docket 029, *Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits*, available on the Board's website.

We are aware that the Securities and Exchange Commission ("SEC") recently issued a concept release on audit committee reporting requirements,[3] which, in part, seeks input on providing the engagement partner name and information regarding other participants in the audit in the audit committee report. We believe either approach — providing the information on Form AP or in the audit committee report — would achieve the same transparency objective, while alleviating the need for named parties to provide consents if their names were to be disclosed in the auditor's report. We recommend that the PCAOB and SEC coordinate in order to determine the placement of this information that would best meet the needs of the investing public, while avoiding duplicative disclosure requirements.

We believe that there are certain limited implementation and other issues that should be further considered by the PCAOB and where additional guidance would provide clarity and assist with application of the proposed requirements. We discuss our observations and additional items for consideration below and in Appendix A.

DISCLOSURE OF CERTAIN PARTICIPANTS IN THE AUDIT ON FORM AP

As stated above, we support the alternative presented in the supplemental request to disclose the name of the engagement partner and other accounting firms participating in the audit on Form AP, as we believe (1) it presents a practical and feasible approach to achieving the objective of transparency and (2) it would result in the requested information available in a timely, useful, meaningful, and readily accessible form.[4] We believe there are several benefits to the alternative approach presented by the PCAOB, including the following:

- Investors would have a single, searchable data repository that includes audits spanning a range of time, which they could search for information pertaining to an audit firm or an engagement partner, thereby lowering investors' information gathering costs. For example, if an investor had an interest in understanding the historical involvement of other accounting firms on a particular engagement, or wanted to determine other engagements for which an individual serves or has served as the engagement partner, such information could be searched in a single database.

- Additional information, such as firm inspection reports and enforcement actions, are also readily available on the PCAOB's website and could therefore potentially provide supplementary contextual information to the investor.

- Most importantly, because consents would not be required by those named on Form AP, this alternative approach avoids the practical challenges previously identified, including timing delays associated with obtaining consents from those named individuals or other participants when auditor's reports are included in documents filed with the SEC under the Securities Act.

[3] See the SEC concept release No. 33-9862; 34-75344 File No. S7-13-1, *Possible Revisions to Audit Committee Disclosures* (SEC Audit Committee Concept Release), page 43.

[4] The manner in which the PCAOB makes the information disclosed on Form AP available to investors and other users will determine the timeliness, usability, and ease of access. Our comments herein are based on the assumption that the information would be made available in a centralized searchable database on the PCAOB's website, which would be accessible to the public as discussed on page 7 of the supplemental request.

As discussed in our prior letter,[5] the requirement to obtain such consents would add complexity and place additional pressure on the ability to meet an issuer's desired time frame for filing documents with the SEC.

OTHER PARTICIPANTS IN THE AUDIT

In the supplemental request the Board is seeking feedback on whether to (1) require disclosure of nonaccounting firm participants in the audit, or (2) narrow the disclosure requirement such that disclosure of information regarding nonaccounting firm participants would not be required if they were controlled by or under common control with the accounting firm issuing the auditor's report.[6] We support not requiring disclosure of information concerning any nonaccounting firm audit participants. This approach would enhance and improve transparency because it would focus the disclosures on those participants that play meaningful roles in the audit and would enhance investors' understanding of the auditor's roles and responsibilities. In addition, disclosing information regarding nonaccounting firm participants might result in unintended consequences by creating a misperception of the role they play in the audit and the auditor's reponsibilities to supervise the related work performed in accordance with PCAOB standards.

Should the Board, however, decide to require disclosure related to nonaccounting firm audit participants, we would also be supportive of the alternative tailored approach described in the supplemental request (i.e., to exclude information related to nonaccounting firm entities controlled by or under common control with the registered audit firm). As discussed in our prior comment letter, we do not believe that providing information regarding nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report would provide meaningful information to investors, because these entities are not, for the purposes of audit report transparency, "distinct from" the registered firm issuing the audit report.

In addition, we believe that consistent with the objective of providing information relevant to and understandable by investors and to achieve comparability in reporting with other accounting firms, the supplemental request should be interpreted to not require disclosure regarding specialists that are employed by and that are under common control with the registered audit firm (e.g., sister entities under common control with the registered firm that provide specialized assistance in areas such as tax, valuation, or other assistance as part of the audit). As mentioned in our prior letter,[7] those entities are not, for the purposes of audit report transparency, "distinct from" the registered firm issuing the auditor's report. There is diversity in the organization of different accounting firms, reflecting, in part, historical structuring and risk planning. The manner in which an organization, of which the registered firm issuing the audit report is a part, has elected to structure itself is not a reason

5 See D&T 2013-009 Release letter regarding potential increase in auditor liability. We continue to believe that providing information related to the engagement partner and other participants in the audit in the auditor's report would trigger the consent requirement of Section 7 and, thereby, subject named parties to potential liability under Section 11 of the Securities Act.

6 See PCAOB Release No. 2015-004, p.11.

7 As mentioned in D&T 2013-009 Release letter, as a result of the relationship among sister entities under common control (entities that provide tax, valuation, or other assistance to the registered firm as part of the audit) the personnel from these entities function as members of the registered firm's audit engagement team, their work is reviewed by the registered firm's engagement team, and the working papers prepared by personnel from these other entities are maintained and archived by the registered firm as part of the engagement audit documentation. Also, the PCAOB's inspections already consider the work of these entities to the extent that they participate in the registered firm's audits.

to disclose information regarding other components of the organization. Therefore, consistent with our interpretation of the scope of the supplemental request described above, we do not believe disclosure regarding their involvement would provide meaningful incremental information to investors or further the goal of transparency.

EFFECTIVE DATE CONSIDERATIONS

Should the Board move forward with disclosure requirements proposed in the supplemental request, we believe that providing engagement partner names on Form AP can be achieved quickly and efficiently. However, we believe a longer period of time likely will be necessary to create an appropriate process and implement the related system of quality control necessary to effectively and efficiently gather, calculate, and report information regarding involvement of other participants in the audit. Therefore, we request that the Board consider an incremental approach to implementation, such that providing engagement partner names is implemented first (Phase 1) and information regarding other participants is implemented as of a later date (Phase 2). Following this approach, we agree with the proposed effective date (for audit reports issued after June 30, 2016, or three months after approval by the SEC, whichever occurs later) for Phase 1. We suggest that Phase 2 become effective for audit reports issued after December 31, 2016, or three months after approval by the SEC, whichever occurs later.

APPLICABILITY TO AUDITS OF EMERGING GROWTH COMPANIES AND BROKERS AND DEALERS

In the supplemental request, the Board is soliciting feedback on the applicability of the final rules to audits of emerging growth companies (EGCs). As discussed in our previous letter, we do not believe there is a basis for exempting audits of EGCs from the requirements of the final standards, as we believe investors of these companies would have similar interest in the additional information regarding participants in the audit.

As also discussed in our previous letter, we continue to believe that nonissuer brokers and dealers should be excluded from the requirements of providing the name of the engagement partner or the names of other participants in the audit. Given (1) the closely held nature of many brokers and dealers, (2) the fact that in many instances only limited financial information is available publicly, and (3) what appears in most cases to be a limited number of users of the financial statements, we do not believe that there would be corresponding value to the users of the financial statements of nonissuer brokers and dealers.

* * *

D&T appreciates the opportunity to provide our perspectives on these important topics. Our comments are intended to assist the PCAOB in analyzing the relevant issues and potential effects of the supplemental request. We encourage the PCAOB to engage in active and transparent dialogue with commenters as the supplemental request is evaluated and changes are considered.

If you have any questions or would like to discuss these issues further, please contact Thomas Omberg at 212-436-4126, Alex Schillaci at 203-761-3489, or Dave Sullivan at 714-436-7788.

Very truly yours,

Deloitte & Touche LLP

Deloitte & Touche LLP

cc: James R. Doty, PCAOB Chairman
Lewis H. Ferguson, PCAOB Member
Jeanette M. Franzel, PCAOB Member
Jay D. Hanson, PCAOB Member
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Daniel M. Gallagher, SEC Commissioner
Michael S. Piwowar, SEC Commissioner
Kara M. Stein, SEC Commissioner
James V. Schnurr, SEC Chief Accountant
Brian T. Croteau, SEC Deputy Chief Accountant

APPENDIX A

CONSIDERATIONS FOR IMPROVING EFFICIENCIES OF FORM AP

We believe some minor modifications to the alternative presented in the supplemental request, as described below, would provide clarity and assist with application of the proposed requirements.

Instructions to Form AP

Filing deadline and batch reporting. In designing the modifications to the current web-based system for registered accounting firms to file Form AP, we suggest that the PCAOB design Form AP such that firms could report the information for multiple auditor's reports for different issuers on the same form (i.e., batch reporting). In addition, we suggest that for auditor's reports not filed in connection with IPOs, the Board consider a periodic monthly filing requirement structured similar to the current requirements for Form 2 (but on a monthly rather than annual basis.)

- For example, for all auditor's reports issued or reissued during the period from March 1 through March 31, the firm would be required to file a monthly report by the first day of the second subsequent month (i.e., on or by May 1), that would include all auditor's reports for all issuers that were issued by the firm during the month of March.

As discussed in the supplemental request, each Form AP submitted to the Board would need to include a signed certification by an authorized partner or officer of the firm in accordance with Rule 3210.[8] Monthly batch reporting would allow for one monthly form that would require one signed certification for multiple auditor's reports for different issuers as opposed to the authorized partner or officer having to certify each individual Form AP for each auditor's report issued or reissued by the firm.

- For example, during February and March 2015 D&T issued over 550 and 460 auditor's reports, respectively, in the United States in connection with issuer audits. Submitting and certifying individual forms on a daily basis for each of these auditor's reports would be time consuming and costly. Allowing for monthly batch reporting would provide efficiencies, aid in quality control review, and alleviate some of the burden on accounting firms and the PCAOB staff responsible for reviewing submissions during high volume periods.

Calculation of audit hours to determine which participating accounting firms need to be disclosed as other participants in the audit. The supplemental request suggests that the hours incurred by the engagement quality reviewer ("EQCR") and the persons who performed the review pursuant to the SEC Practice Section 1000.45 Appendix K ("SEC reviewer") are to be excluded from total audit hours in the current period's audit.[9] We request that this be reconsidered by the PCAOB, as we believe that excluding the hours incurred by EQCR and SEC reviewers would inaccurately represent the effort involved in issuing an auditor's report. Although EQCR and SEC reviewers are not part of the engagement team, their roles are significant and, indeed in the case of the EQCR, the report could not

8 See PCAOB Release No. 2015-004, page A1-8.
9 See PCAOB Release No. 2015-004, page A1-6.

be issued in compliance with the Board's standards without the EQCR's involvement. Therefore, the hours incurred by such individuals support the auditor's report and the quality of the audit engagement.

Use of estimates. We suggest that the Board provide additional guidance confirming the ability of accounting firms to use reasonable estimates in determining the total audit hours as well as the hours incurred by other participants in the audit as a basis for determining the necessary disclosures discussed in the supplemental request. We believe that the accumulation of the number of hours in an overly precise manner will require additional cost and effort but likely will not result in more meaningful information being provided to the public than if reasonable estimates can be used (i.e., if the information disclosed is based on the auditor's "best estimates" of hours of other participants, we believe it will still provide a relevant basis for assessing the level of significance of the work performed by others).

- We note that for the purposes of reporting on Form 2, the PCAOB currently allows for the use of a reasonable method to estimate the total fees billed by the firm to all issuers for services (audit, other accounting, tax, and nonaudit) that were rendered in the reporting period.[10] We therefore suggest that the PCAOB provide for that same ability to use estimates (provided the methodology is reasonable and the PCAOB could, for example, require that it be described in the form) in calculating the range of the percentage of hours to be reported for other participants on Form AP as well as the total audit hours.

- Furthermore, there are instances when other accounting firms may perform statutory audits in addition to work that supports the auditor's report on the group financial statements (which in some cases is completed after the audit report on the group financial statements is issued). We suggest that the PCAOB provide additional guidance for calculating audit hours in such circumstances, including an indication as to whether it would be appropriate for the auditor to estimate the number of hours that relate to the audit of the issuer for the purposes of determining the Form AP disclosures.

Reporting thresholds and buckets of percentage ranges. We suggest that the Board consider modifying the bucketed ranges of participation (e.g., to be increments of 20%) which we believe will be more meaningful percentage increments, but which would still provide interested parties with a reasonable frame of reference for understanding the involvement of other participants in the audit.

Conflicts with Non-U.S. Law. We recommend that the Board include a mechanism for a firm filing Form AP to indicate that it cannot provide information requested on the form without violating non-U.S. laws. This would make Form AP consistent with other forms filed with the Board, and would allow for the possibility that certain non-U.S. registered public accounting firms may be subject to conflicting requirements under their local laws. The Board could consider including checkboxes on the form for indicating the presence of a legal conflict, and amending Board Rule 2207 such that the procedures prescribed there apply not only to Forms 2 and 3, but also to Form AP.

[10] See Instructions Item 3.2 to the Form 2 on the Board's website (http://pcaobus.org/Rules/PCAOBRules/Pages/Form_2.aspx).

Potential Further Reporting Efficiencies

Duplicative disclosures in Form 2. Considering the potential requirements related to Form AP discussed in the supplemental request and to provide efficiencies for both accounting firms and the PCAOB, we suggest that Form 2 filing requirements for items 4.1.a and 4.3.1[11] be amended or eliminated. Most of the information that is currently required to be included within items 4.1.a and 4.3.a on the annual Form 2 would now be included on Form AP.

Filing requirements. The supplemental request suggests that if the auditor's report is reissued and dual-dated, a new Form AP would be required even when no other information on the form changed.[12] When an auditor's report is re-issued, we recommend that a new Form AP not be required to be submitted *until and unless* there has been a change in the information previously provided (e.g., there has been a change in the audit partner or in the percentage range of other participants in the audit such that the participating firm falls in a different percentage range of participation or a new participant needs to be disclosed). This approach would eliminate inefficiencies regarding re-filing of Form AP when an auditor's report is reissued but the relevant information contained therein has not changed.

[11] Form 2 filing requirements for items 4.1.a and 4.3.1 require accounting firms to provide certain information concerning each issuer and broker and dealer for which the firm issued any audit report(s) during the reporting period.

[12] See PCAOB Release No. 2015-004, page 9.

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August 31, 2015

VIA E-MAIL: comments@pcaobus.org

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street N.W.
Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 029

Dear Members of the Board and Staff:

Dixon Hughes Goodman LLP (DHG) welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2015-004, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form,* (Supplemental Request). Headquartered in Charlotte, NC, DHG ranks among the top 20 public accounting firms in the nation, with more than 1,800 professionals and staff in 12 states, and is a member of Praxity, a global alliance of independent firms. This letter includes our views, observations, and recommendations on the Supplemental Request, as well as the Board's previous proposals.[1]

Overview

DHG supports calls from financial statement users for increased transparency into the audit, including better understanding the parties responsible for performing an audit through identifying the engagement partner and providing information on certain other audit participants, and commends the PCAOB for proposing a disclosure option within a newly created PCAOB Form AP, *Auditor Reporting of Certain Audit Participants* (Form AP). We believe identifying the engagement partner and providing information about certain other audit participants within Form AP would avoid many of the practical challenges and potential legal implications that would arise from providing this information in the auditor's report. For instance, providing such additional transparency through disclosures in the auditor's report would likely result in increased liability risk to the parties named in the auditor's report and present substantial practical challenges and increased costs to audit firms and issuers, particularly as it relates to obtaining consents from these named parities. Furthermore, we question the need to provide a voluntary option for audit firms to disclose within the auditor's report, when the practical challenges and increased litigation risks associated with disclosure in the auditor's report remain.

Although we support providing information about certain other audit participants, we believe the profession would benefit from additional guidance related to the auditor's ability to use estimates (and

[1] See PCAOB Rulemaking Docket Matter No. 029: *Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits,* Release No. 2009-005 – Concept Release, Release No. 2011-007 – Proposed Rule, and Release No. 2013-009 – Reproposed Rule.

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professional judgment) in determining the level of participation of other audit firms. We also believe extending the filing deadline and considering a longer implementation period would allow audit firms sufficient time to develop systems and gather data necessary to meet the Form AP disclosure requirements.

We have provided certain comments and recommendations below regarding the potential disclosure obligations within the Form AP, as well as other matters detailed within the Supplemental Request.

Disclosure on Form AP

DHG is supportive of identifying the engagement partner and providing information on certain other audit participants in Form AP, as this would provide information in a consistent data format, centralized in one location that is accessible to all financial statement users. Presumably, this information would be searchable, allowing financial statement users the ability to access this information more efficiently. For instance, although the auditor's report is the critical vehicle by which the auditor communicates his or her opinion of the audit, it does not lend itself for comparable purposes if financial statement users are interested in better understanding the engagement partner's portfolio of audits. Financial statement users would have to comb through numerous individual auditor's reports to find the relevant information. However, if the PCAOB moves forward with the Form AP requirement, financial statement users could easily locate this information within a searchable database on the PCAOB's website.

Further, providing these disclosures within the Form AP would avoid the potential challenges (and additional costs) in obtaining consents from the engagement partner and other named participants in the audit. Form AP disclosures should also mitigate concerns over certain liability considerations under federal securities laws, particularly the risk that named parties would be subject to potential liability under Section 11 of the Securities Act of 1933. It is not clear, however, what impact disclosure in the Form AP could have on potential liability risk under the general anti-fraud provisions (i.e., Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5).

Voluntary Disclosure within the Auditor's Report

In addition to the required filing of Form AP, the Supplemental Request provides auditors with a voluntary option to include the same Form AP disclosures within the auditor's report.[2] Although we support identification of the engagement partner and disclosure of certain other audit participants in the Form AP, we do not believe it is appropriate to allow for voluntary disclosure within the auditor's report. Further, as this information would already be included in the Form AP, and available to financial statement users in a centralized searchable location, it is unclear why a voluntary option is needed, particularly an option that is riddled with complex challenges.

Providing these disclosures within the auditor's report (regardless if provided on a voluntary basis) would have significant litigation implications and presents substantial practical challenges and increased costs to audit firms and issuers, particularly as it relates to obtaining consents. If the Board continues to believe a secondary voluntary disclosure option is necessary, despite the required information provided within the Form AP, we strongly urge the Board to reconsider providing a disclosure option that has such onerous unintended consequences.

[2] See page 7 of the Supplemental Request.

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Alternatively, the Securities and Exchange Commission (SEC) recently issued a concept release[3] seeking stakeholder input on potential enhancements to disclosures for audit committees, specifically requesting comment on a number of possible changes to existing SEC disclosure requirements regarding the audit committee's oversight of the external auditor, including the potential disclosure of the engagement partner and information about other audit participants by audit committees in the proxy or in other alternative locations. As audit committees are responsible for the oversight of external auditors, they may be in the best position to disclose this information. Therefore, we encourage the PCAOB, in considering a voluntary disclosure option, to collaborate with the SEC to determine whether audit committees should consider disclosing this information within the proxy statement or the audit committee report.

Certain Other Audit Participants

DHG supports providing information about certain other audit participants through submission of the Form AP, and believes the proposed use of ranges for disclosing the participation by other public accounting firms would reduce some of the administrative burden inherent in providing precise calculations. However, there could be challenges in determining the relevancy of hours reported by other auditors, as these auditors may incur hours that are not within the scope of the issuer's group audit engagement (e.g., while performing statutory audits of foreign subsidiaries). Similar scenarios may present the need for audit firms to rely on certain estimates to provide relevant disclosures. Therefore, we believe the profession would benefit from additional guidance including acknowledging the acceptability of the use of professional judgment in determining estimates. For instance, the PCAOB could allow for the use of a reasonable method of estimation in determining the percentage of hours reported for other audit firm participants, similar to the option currently provided to audit firms in reporting the components of the total fees billed to issuer audit clients within Form 2.[4]

Further, we support the exclusion of engaged specialists from this disclosure requirement, and agree with past commenters' responses that the inclusion of such a requirement would disproportionally affect smaller to medium-sized accounting firms.

Proposed Filing Requirements

The Board is considering a Form AP filing deadline of 30 days after the date the auditor's report is included in a document filed with the SEC.[5] However, there could be challenges in preparing the Form AP disclosure information within this timeframe, due to the time commitment needed to aggregate and review audit hours to determine the relative participation of other audit firms. These challenges could be compounded by the large percentage of public filings issued around the same general timeframe. Therefore, as opposed to the 30 days deadline, we recommend the Board extend the proposed filing deadline to 45 days, to coincide with the audit documentation requirement under Auditing Standards No. 3, *Audit Documentation* (AS 3). We believe alignment with AS 3 would allow for more accurate reporting and less estimation of audit hours in determining the relative participation of certain participating firms in the Form AP disclosures.

[3] See Concept Release No. 33-9862, *Possible Revisions to Audit Committee Disclosures*.
[4] See PCAOB Instructions for Form 2, Item 3.2.
[5] See page 8 of the Supplemental Request.

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Further, during initial implementation, additional time and effort are needed by the audit firms to develop internal systems, processes, and quality controls to track, monitor, and report Form AP information. Therefore, we believe the Board should consider a 60-day Form AP fling deadline during the first year of implementation, to allow audit firms sufficient time to develop and validate these new systems and processes.

Initial Public Offering

The Board is contemplating a 10-day Form AP filing deadline for initial public offerings (IPO), to ensure Form AP disclosures are available before an investor road show.[6] We support the 10-day IPO filing deadline; however, due to the shorter filing requirement, additional estimation and judgment may be necessary to provide the disclosures in this abbreviated timeframe. Therefore, in considering these circumstances, we believe the PCAOB should provide additional guidance related to the acceptable level of estimation and judgment in compiling the disclosures in the case of this abbreviated deadline.

Further, we do not believe it is appropriate to apply the 10-day filing requirement whenever the auditor's report is included in a Securities Act registration statement, other than an IPO.[7] There are many instances where a registration statement will include, or incorporate by reference, a previously filed audit report, which may already have a corresponding Form AP. For instance, a Form S-3 may incorporate by reference a previously filed Form 10-K, in which a corresponding Form AP has been filed and there is no new information to be reported. In such a situation, filing a new Form AP for the registration statement would be redundant and unnecessary. However, we do believe it is appropriate to file a new Form AP in situations where the information included in a previously filed Form AP has changed from the original filing (see also 'Re-filing Considerations' below).

Re-filing Considerations

The Board is contemplating a requirement to file a new Form AP in situations where an audit report is reissued and dual-dated, "even when no other information on the form has changed."[8] Although we support re-filing in certain circumstances, it is unclear how filing a new Form AP that includes no new information, and when no material changes have transpired on the audit, would provide any meaningful value to financial statement users to warrant the additional costs and efforts to file. In addition, there is a risk that requiring the repeated filing of a Form AP in situations where no information has changed could diminish the value of the Form AP disclosures to financial statement users.

As opposed to requiring the re-filing of a Form AP in these situations, we recommend the Board limit the re-filing requirements to situations when an audit report has been reissued *and* there have been changes to the information previously disclosed in the Form AP (e.g., change in the audit partner or the audit hour ranges disclosed). Requiring re-filing under these circumstances would alleviate unnecessary costs and efforts incurred by audit firms in filing multiple Forms AP, while maintaining the disclosure value to financial statement users.

[6] See page 8 of the Supplemental Request.
[7] See question 6, page 17 of the Supplemental Request.
[8] See page 9 of the Supplemental Request.

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Effective Date

The Board is contemplating making the requirements under the Supplemental Request effective for auditor's reports issued or reissued on or after June 30, 2016 (or three months after SEC approval).[9] However, considering the costs and efforts associated with creating systems, processes and quality controls to gather, aggregate, and report the required information, we believe it may be difficult for audit firms to implement the requirements under the Supplemental Request within the Board's proposed effective date. Further, we do not believe it is appropriate to provide the audit profession less than a year to establish these new systems and processes, particularly given the request for clarification and recommendations provided above, which the Board would have to consider (along with other commenters' feedback and recommendations) prior to submitting a final ruling.

In order to provide reliable information to financial statement users, we strongly encourage the Board to consider either:

(1) Extending the proposed deadline, possibly one-year upon finalization of the standards, or
(2) Adopting a phased-in implementation approach, which would entail limited disclosures on Form AP in year one of adoption. For example only disclosing the engagement partner, with the full disclosures, including the disclosure of other audit participant information, in the second year of adoption.

Furthermore, in designing the submission process, we support the Board leveraging existing submission processes for filing annual (i.e., Form 2) and special reports (i.e., Form 3), and allowing for the submission of multiple Forms AP simultaneously through an extensible markup language (XML).[10] However, we believe the Board could further ease the administrative burden by allowing additional flexibility in how a Form AP is processed. For instance, in addition to allowing the filing of multiple Forms AP through an XML submission, the Board could allow for the submission of multiple audits within a single Form AP, similar to Form 3 reporting, which allows for the filing of multiple events in a single form.[11]

Economic Considerations

We anticipate additional costs and efforts to comply with the proposed disclosure requirements in Form AP (e.g., costs to develop systems and processes for gathering, aggregating and reporting the required disclosure information). However, these costs will likely be significantly less than the costs associated with disclosure in the auditor's report (e.g., cost of obtaining consents, indirect costs with respect to potential Section 11 liability).

Scope Considerations

We believe the Form AP filing requirements should apply to audits of emerging growth companies, as they exhibit characteristics similar to other public companies and financial statement users would benefit from similar reporting requirements. However, a majority of non-issuer brokers and dealers have closely held ownership structures with owners generally part of the management team.[12] Therefore, requiring such entities to file a Form AP, and disclosing the engagement partner and other participants in the audit, would provide no additional relevant information to justify the incremental costs to comply.

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[9] See page 16 of the Supplemental Request.
[10] See page 9 of the Supplemental Request.
[11] See PCAOB Staff Questions and Answers, *Special Reporting on Form 3*, Question 17.
[12] See Section IV. Audits of Brokers and Dealers from PCAOB Release No. 2013-009 for research conducted by the PCAOB's Office of Research and Analysis on the ownership structure of brokers and dealers.

* * * *

DHG is supportive of providing financial statement users additional transparency into the audit and believe identifying the engagement partner and providing information on certain other audit participants in a Form AP would avoid many of the practical challenges and mitigate significant legal concerns that would arise from providing this information in the auditor's report. We appreciate the opportunity to comment on the Supplemental Request and are pleased to discuss any questions the Board and its Staff may have concerning our comments. Please direct any questions to Dave Hinshaw, Managing Partner, Professional Standards Group at 704.367.7095 (dave.hinshaw@dhgllp.com) and Jeffrey Rapaglia, Partner, Professional Standards Group at 704.367.5914 (jeff.rapaglia@dhgllp.com).

Sincerely,

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31 August 2015

PCAOB Rulemaking Docket Matter No. 029
Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form

Dear Ms. Brown:

Ernst & Young LLP (EY) is pleased to provide our views on the *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (the Supplemental Request or the Proposal) issued by the Public Company Accounting Oversight Board (PCAOB or Board). Our global organization, Ernst & Young Global Limited, joins in these comments.

We appreciate the efforts the PCAOB has made to take into account the concerns and viewpoints of a variety of stakeholders, particularly concerns surrounding the significant legal and practical challenges that would be created by requiring the identification of the engagement partner and other audit participants in the auditor's report. While we continue to believe disclosures about the audit should focus on firm-wide accountability and not on specific individuals, the PCAOB's proposed use of Form AP is a much improved approach.

Accordingly, our comments below focus primarily on areas where we believe use of Form AP and the related filing process might be improved or made more practical. Such comments relate to the timing, completeness, consistency and accuracy of the disclosures.

Identification of audit participants in the auditor's report

As the Board is aware, our firm and many other commenters have expressed a view that including the names of the engagement partner and other audit participants within the audit report could impede capital formation. Providing such information in the audit report would create the need to obtain a consent of those named in securities filings, and would trigger potential liability under Section 11 of the Securities Act of 1933. Such effects would increase the cost and time required for companies to access the capital markets.

The Board has addressed these concerns in the Supplemental Request through the advancement of the Form AP alternative. Concern with potential liability under Section 10(b) and Rule 10b-5 of the Securities Exchange Act as expressed in prior comments would remain, but we nonetheless believe that the new approach is a significant improvement.

Identification of other participants in the audit

The Board's previous releases on PCAOB Rulemaking Docket Matter No. 29 included various proposals for the disclosure of other participants who performed audit procedures in the audit in order to provide transparency when the auditor assumes responsibility for or supervises the work of another individual or entity. In our previous comment letters we expressed support for these disclosures suggesting they would provide meaningful and useful information to investors (provided that such disclosures did not appear in the auditor's report).

There are, however, several actions the PCAOB might consider to promote the disclosure of meaningful and consistent information without increasing the complexity and costs of providing this information. These actions are: (a) providing guidance to promote consistent and accurate disclosures about other audit participants; (b) considering how a network or firm's legal structure might affect disclosure and (c) addressing the timing of reporting on Form AP.

In addition to these three key points, we urge consideration of the potential for an unintended consequence whereby the auditor might report information about the location of the issuer's operations in foreign jurisdictions that the issuer may not itself disclose in SEC filings. As a result, the auditor could be the only source of information about the location of the issuer's operations based on the level of audit effort and the disclosures in Form AP.[1]

Providing guidance to promote consistent and accurate disclosures about other audit participants

Although a disclosure requirement for other audit participants based on audit hours may seem straightforward, there are a number of factors that might affect the consistency and accuracy of this information that we believe warrant further consideration by the Board.

In most countries outside the United States, local regulations require an audit of each separate legal entity within that local jurisdiction. For large multinationals, there might be numerous statutory entities that comprise an accounting unit that is in the scope of the consolidated or

[1] For example, the Form AP could disclose significant audit effort in Country X because it is in the scope of the audit. However, the issuer does not disclose operations in Country X because those operations are aggregated with those of Country Y and Z and disclosed as a single segment.

group audit. The group auditor might use some of the work performed by the statutory auditor in order to avoid duplication of audit efforts.

For example, the group auditor might request another auditor to perform procedures on inventory and the related controls over inventory - procedures that are also required for the statutory audits. The statutory audit work is likely to be much more substantial than what is needed for purposes of the group audit, because the materiality thresholds for statutory audits are likely to be much lower. In this example, the results of inventory testing for the statutory audits are reported back to the group auditor using the higher materiality thresholds set by the group auditor. However, the other auditor does not separately track the hours it would have taken to perform the inventory procedures at a higher materiality threshold set by the group auditor and it is not practical to do so.

For most multinational audits where a group auditor is relying on the work of the statutory auditor, the ability to distinguish between statutory audit hours that were necessary for the group audit and those that were not will require significant estimates and judgments. Without further guidance from the PCAOB, or use of an alternative, there is the potential for significant variance in methodology employed by firms that could raise concerns about consistency and comparability of the data reported.

Because of the inability to distinguish between statutory audit hours that are necessary for the group audit and those required only for statutory purposes, we believe allocation estimates will be made, which may vary widely based on differing assumptions, or that total statutory hours will be included in the calculation for entities in the scope of the group audit. One solution would be for the Board to make clear its expectations in this area, in order to avoid inconsistencies in how information about other participants is reported on Form AP.

An alternative solution would permit disclosure of other audit participants using fees as the metric rather than hours for those entities that are included in the audit scope of the issuer. SEC proxy rules require disclosure of the aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for audits and reviews and for services that are normally provided by the accountant for statutory and regulatory filings or engagements for those fiscal years.[2]

Fee information for entities that are in the scope of the audit could be used as the basis for disclosure without the need for making estimates or use of methodologies that vary by firm.

[2] SEC Form 10-K, Part III, Item 14

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Information about fees paid to other audit participants is readily available and is already required to be aggregated and disclosed.

We understand that as part of its deliberations on the 2013 Proposal the Board considered audit fees incurred for other participants in the audit as a percentage of audit fees in the issuer's proxy disclosure but concluded that this measure may not be representative of the extent of other participants' participation in the audit.[3] Using fees for entities within the scope of the audit would limit the focus to only those participants whose audit effort benefited the group audit and avoid the costs of gathering hourly information that might not be readily available. For these reasons, we believe the Proposal will be improved by the Board's reconsideration of this modified approach.

Under either of the approaches outlined above there is the potential for over-reporting of the level of effort by other audit participants. Since the circumstances of each audit will vary, to promote greater consistency in the reporting on Form AP we believe that the PCAOB should allow firms to report based upon (1) statutory audit time for entities in the scope of the group audit[4] or (2) audit fees paid to other participants for entities in scope of the audit[5].

Considering how a network or firm's legal structure might affect disclosure

The organizational structures of the larger firms' global networks vary widely. Under the rules proposed in the Supplemental Request, the legal structure of each global network and member firms would cause variation in how information is presented in Form AP, thereby significantly affecting the comparability and usefulness of the information.

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[3] PCAOB Release No. 2013-009, December 4, 2013, page A3-16.

[4] For example, the calculation might be as follows. Assume the total audit time including all statutory audits is 10,000 hours, including 1,000 hours for statutory audits of entities not in the scope of the group audit and 2,000 hours for statutory audits of entities that are included in the scope of the group audit. For purposes of determining the disclosure on Form AP, the calculation would be 2,000 hours divided by 9,000 hours or within the range of 20-30%.

[5] For example, the calculation might be as follows. Assume the total Audit Fees disclosed under SEC Form 10-K, Part III, Item 14 (1) is $1,000,000, including $50,000 of fees for audits of other entities by other participants that are not in the scope of the group audit and $150,000 of fees for other participants in the audit of entities that are included in the scope of the group audit. For purposes of determining the disclosure on Form AP, the calculation would be $150,000 divided by $950,000 or within the range of 10-20%.

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Unlike the proposed amendments issued in 2013, the Supplemental Request would not require disclosure of non-accounting firm participants in the audit.[6] In many jurisdictions, it is common for certain audit participants to be employees of a legal entity within the global network that is not a public accounting firm under the PCAOB's definition. For example, tax practitioners operating in a separate legal entity that does not meet the definition of a public accounting firm might provide significant services in the conduct of a group audit; under the Supplemental Request, their participation in the audit would not be disclosed on Form AP. Similarly, some firms have an offshore service center whose employees provide assistance in executing routine audit procedures. Whether these centers are housed within a legal entity that meets the definition of an accounting firm may vary among firm networks, thereby leading to variations in Form AP disclosures under the proposed Supplemental Request.

The Supplemental Request states that the Board is considering a "more tailored approach[7]" under which no disclosure as an "other audit participant" would be required for entities that are "controlled" by the registered firm. The fact that the primary audit firm controls the operations of another audit participant does not necessarily change the amount of supervision and review that is required for audit procedures undertaken by that entity. As a result, this alternative does not appear to address one of the primary objectives of the disclosure.

Because the legal structure underlying other audit participants will affect the disclosure in Form AP and affect the meaningfulness of the information, we urge the Board to consider requiring disclosure of any entity within a global network of firms that participates in the audit and meets the extent of participation criteria set forth in the proposed Form AP.

Addressing timing of reporting on Form AP

The Supplemental Request states that the Board is considering a filing deadline of 30 days after the date the auditor's report is first included in a document filed with the SEC, with a shorter deadline of 10 days for initial public offerings ("IPOs"). Several registered accounting firms (including EY) have well in excess of 1,000 issuers and broker dealers that would require

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6 PCAOB Rule 1001(p)(iii) defines the term "public accounting firm" to mean "a proprietorship, partnership, incorporated association, corporation, limited liability company, limited liability partnership, or other legal entity that is engaged in the practice of public accounting or preparing or issuing audit reports."

7 Under this more tailored approach, disclosure of certain information about non-accounting firm participants in the audit could be required if, in the current period, the auditor was required to supervise other persons that are not: (1) other accounting firms; (2) the auditor's own employees; or (3) entities that are controlled by or are under common control with the auditor, or employees of such entities. Control could be defined for that purpose as the power to direct or cause the direction of management and policies of the participant, whether through the ownership of voting securities, by contract, or otherwise.

reporting on Form AP. Since filing dates for issuers' annual reports vary throughout the year, the proposal could require an accounting firm to make multiple filings on Form AP with the PCAOB daily. To reduce the administrative burden and cost, we believe the PCAOB should consider an alternate time and reporting format that would still allow users of the information to receive the information for use in conjunction with annual shareholder meetings and proxy voting.

Specifically, as it relates to the proposed 30 day requirement, investor commenters on PCAOB Rulemaking Docket Matter No. 29 have indicated that they seek the information required on Form AP in connection with their oversight and voting responsibilities as shareholders. Therefore the PCAOB might consider requiring the information on a similar timeframe as information required by Part III of Form 10-K.[8] Part III information is to be incorporated by reference from the definitive proxy or information statement or by amendment no later than 120 days after the year-end of the registrant. A 120 day filing requirement after the Issuer's year end for filing the Form AP also would coincide with the availability and use of proxy fee information as the basis for disclosure in Form AP of other audit participants as suggested above[9].

Because of potential delays in public filings by issuers, and the need to address the filing requirements of Foreign Private Issuers and issuers that are non-accelerated filers, we suggest that at a minimum the information not be required sooner than the required completion date of the audit work papers prescribed in Auditing Standard No. 3, *Audit Documentation* (AS 3), which is 45 days after the auditor's report release date. During this period, auditors would be completing audit documentation and incurring additional hours. Using the completion date of the audit work papers as the basis for a filing deadline would also obviate the need for estimates to be made at the report release date, as would be the case under the Supplemental Request. A reasonable period of time after this 45 day period, such as 15 days, would allow auditors to complete their work and provide the required information on Form AP with all hours reflected in the audit effort. Therefore, we suggest that the final rule indicate that the Form AP is due within 120 days after year-end or 60 days after the report release date, whichever is later.

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[8] Item III of Form 10-K requires information required by Items 10-14 of the Form (Item 10, *Directors, Executive Officers and Corporate Governance*; Item 11, *Executive Compensation*; Item 12, *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*; Item 13, *Certain Relationships and Related Transactions, and Director Independence*; and Item 14, *Principal Accountant Fees and Services)*. This information is generally incorporated by reference from the registrant's definitive proxy statement or definitive information statement which involves the election of directors.

[9] Using a 120 day period means that auditors would have to file the Form AP for large accelerated filer issuers 60 days after the due date of the Form 10-K. If the 120 day period is used for non-accelerated filers, the Form AP would be due within 30 days after the due date of the issuer's Form 10-K.

Additional comment

Recognizing the SEC is currently soliciting comments on Concept Release No. 33-9862, *Possible Revisions to Audit Committee Disclosures*, (Concept Release), we encourage the continued coordination by the PCAOB and the SEC as many of the suggestions above regarding the content of Form AP relate to the content and timing of the proxy disclosures under consideration in the Concept Release.

* * * * *

We want to thank the Board for its consideration of this letter and the comments we previously submitted on this topic. We would be pleased to discuss our comments with members of the Board or its staff.

Respectfully submitted,

Ernst + Young LLP

Attachment
Copy to: PCAOB
James R. Doty, Chairman
Lewis H. Ferguson, Board Member
Jeanette M. Franzel, Board Member
Jay D. Hanson, Board Member
Steven B. Harris, Board Member
Martin F. Baumann, Chief Auditor

SEC
Mary Jo White, Chair
Luis A. Aguilar, Commissioner
Daniel M. Gallagher, Commissioner
Michael S. Piwowar, Commissioner
Kara M. Stein, Commissioner
James Schnurr, Chief Accountant
Brian T. Croteau, Deputy Chief Accountant

FICPA Florida Institute of Certified Public Accountants

August 18, 2015

Office of the Secretary
Public Company Accounting Oversight Board
PCAOB Rule Making Docket Matter No. 029
1666 K Street, NW
Washington, DC 20006-2803
Via e-mail: comments@pcaobus.org

PCAOB Rule Making Docket Matter No. 029

Re: Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form

Dear Ms. Brown:

The Accounting Principles and Auditing Standards Committee (the "Committee") of the Florida Institute of Certified Public Accountants ("FICPA") respectfully submits its comments on the referenced proposal. The Committee is a technical committee of the FICPA and has reviewed and discussed the above referenced Supplemental Request for Comment issued by the Public Company Accounting Oversight Board (the "PCAOB" or "Board"). The FICPA has approximately 19,500 members, with its membership comprised primarily of CPAs in public practice and industry. The Committee is comprised of 22 members, of whom 50% are from local or regional firms, 9% are from large multi-office firms, 18% are sole practitioners, 9% are in international firms, and 14% are in academia or private industry. Therefore we are addressing this exposure draft both from the viewpoint of preparers of financial statements as well as those performing attest services on them. The Committee has the following comments related to the questions posed by the Board.

We appreciate the Board's continued efforts to improve overall audit quality and are pleased to provide our response below:

Overall Response:

- The Committee does not agree with the concept of placing the engagement partner's name on the audit report for a number of reasons as further summarized below. The Committee also does not agree with the concept of placing the engagement partner's name on Form AP for similar reasons.

- Regarding disclosing the information about other participants in the audit, the Committee had previously discussed and then generally felt that existing standards, possibly supplemented by current US GAAS on group audits, provide enough guidance for practitioners and provide sufficient reporting for investors.

Engagement partner's name on the audit report or on Form AP

The Committee noted a variety of concerns regarding placing the engagement partner's name on the audit report or on Form AP:

Usefulness to investors
Committee members expressed concerns over the usefulness of disclosing the engagement partner's name. It was also noted that even with disclosure of the engagement partner's name in the audit report or on Form AP, investors would not have all the facts needed to judge the partner's performance and expertise.

Litigation
Committee members noted the proposed amendments are generally consistent with practice in certain foreign jurisdictions. However, given the legal climate in the United States, the inclusion of the audit partner's name may do more to add figurative ammunition to a plaintiff's case than actually improving audit quality.

Partner workload
Committee members noted the proposed amendments may actually hinder audit quality as firms may be forced to utilize a symbolic "brand name" partner on certain engagements rather than the partner who would be the best fit to a particular audit. If firms are more concerned about having "brand name" partners on so many engagements, such partners may have a workload that is not conducive to high audit quality.

Partner experience
Long-term, the proposed amendments may be detrimental to the development of future partners if younger partners are prohibited from serving as engagement partner on a number of engagements in the interest of having "brand name" partners instead for the sake of appearance. This issue, as well as the issue above regarding workload and other factors, could diminish a firm's quality control.

Focus on the partner
Committee members indicated that it is not just a partner that is involved in an audit, but rather a team at a firm that is subject to a firm's quality control processes. Including the name of the engagement partner may work to provide an inappropriately great focus on the audit partner.

Disclosing the information of other participants in the audit

In both a previous Committee meeting and current Committee meeting, views were not as strong as on the issue of disclosing the information of other participants in the audit as compared to disclosure of the engagement partner's name on the audit report or on Form AP. However, the Committee generally felt that existing standards, possibly supplemented by current US GAAS on group audits, provide enough guidance for practitioners and provide sufficient reporting for investors. While it can be said the proposed amendments are well-intentioned, in that meeting Committee members expressed concerned that the proposed amendments are overly prescriptive and may be information overload, ultimately hindering the usefulness of the information. Committee members had noted the current AICPA guidance on group audits, applied in the public company environment, provide sufficient information to investors.

Response to the Board's Questions in Opportunity for Public Comment:

Question 1

Committee members believe disclosure on Form AP would have much the same effect as mandatory disclosure in the auditor's report as under both alternatives, the information would be available to the public. Committee members also noted that both approaches have concerns. Please see the Committee's Overall Response above.

Question 2

Please see the Committee's Overall Response above.

Question 3

The Committee members did not believe that disclosure on Form AP would mitigate concerns about liability. Please see the Committee's Overall Response above.

Question 4

Regarding voluntary disclosure of the information in the auditor's report, this would lead to inconsistency in presentation and possibly confusion among users about where to obtain information. If Form AP does not exist and disclosure of the information in the auditor's report was optional, users would have difficulty in determining completeness of lists of audit reports signed by a respective audit partner.

Question 5

Please see the Committee's Overall Response above.

Question 6

Please see the Committee's Overall Response above. However, if Form AP is implemented, perhaps an annual reporting requirement would be more feasible, similar to Form 2. Also, consideration should be given to exempting reports on financial statements of smaller reporting companies.

Questions 7 through 12, inclusive

Please see the Committee's Overall Response above.

The Committee appreciates this opportunity to respond to this Board's proposed rule. Members of the Committee are available to discuss any questions you may have regarding this communication.

Respectfully submitted,

Brion L. Sharpe, CPA
Chair, FICPA Accounting Principles and Auditing Standards Committee

Committee members coordinating this response:

Steven Morrison, CPA
Brion L. Sharpe, CPA

August 31, 2015

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Re: PCAOB Rulemaking Docket Matter No. 029, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*

Dear Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* ("Supplemental Request"). We commend the Board's thoughtful deliberations in responding to comments received on the reproposal[1], and we appreciate the opportunity to submit additional comments on the Board's proposed revisions in this Supplemental Request.

We support the Board's initiative to improve the transparency of audits to investors and other stakeholders; however, we continue to be concerned with the validity of the premise that identifying the engagement partner will accomplish the goals of improving audit quality and providing meaningful information to investors. As noted in our previous letter[2], we believe that simply providing the name of the engagement partner is unlikely to be useful in the context of evaluating audit quality and will more likely result in a focus only on those partners associated with particular adverse audit outcomes, such as restatements. This association may or may not be an appropriate conclusion as users of this information will rarely have sufficient context with which to evaluate the circumstances that resulted in the specific adverse outcome.

Notwithstanding our concerns over the disclosures related to the engagement partner, should the Board adopt this proposal, we believe using a form similar to Form AP, *Auditor Reporting of Certain Audit Participants* to disclose the engagement partner and certain other participants in the audit is a better alternative than including the information in the auditor's report. We also believe that

[1] PCAOB Release No. 2013-009 dated December 4, 2013
[2] Grant Thornton comment letter dated February 3, 2014 Re: PCAOB Rulemaking Docket Matter No. 029, Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit

adopting this type of reporting will address some of the liability concerns and most of the concerns regarding consents for future filings that were raised in response to the original proposal[3] and reproposal to include this information in the auditor's report. Given our concerns noted above, we strongly recommend that the Board continue to evaluate through inspections, outreach, general observations and possibly formal study of how such information is being used by the investment community and other stakeholders, including issuers. Such evaluation could identify potential unintended or inappropriate consequences of making such information available.

With respect to how accounting firms will summarize and report information within the parameters set forth in the Supplemental Request, should the requirements be adopted as proposed, we foresee potential operational challenges, which are discussed below along with recommendations for the Board's consideration and responses to certain questions within the Supplemental Request.

Potential operational challenges

Filing deadline

We appreciate the desire to provide timely information to stakeholders with regard to the engagement partner and certain other participants in an audit. However, we believe that ensuring the accuracy of that information is more important than providing potentially less accurate information in "real-time". The type and volume of information proposed in the Supplemental Request will require meaningful time to gather and verify. We believe accurate information reported on the PCAOB's prescribed form is of greater importance and use to investors than the speed with which the information is made available.

In light of this and the operational challenges discussed below, we encourage the Board to reconsider the proposed filing deadlines. We propose initially requiring the firm's information be filed on a periodic basis, such as annually. We believe the usefulness and quality of information increases as information is gathered over time. Since it is not known how exactly the disclosure of the partner name and other participants in the audit will be used or its impact on the marketplace, we believe that starting with an annual filing requirement could avoid potential unintended negative consequences. Over time, the Board could then, through post-implementation review, evaluate how this information is being used in the marketplace and re-evaluate the frequency of the firm's providing such information.

Single form reporting

As set forth above, we recommend that the Board consider alternative filing deadlines that would allow for more accurate firm reporting of the required information. In that regard, we also believe the Board should allow audit firms the ability to file information regarding multiple, related audit reports on a single form. This could alleviate some of the administrative burden, particularly with respect to audit reports for entities that file daily or weekly information, such as investment companies and unit investment trusts. As an example, a single unit investment trust sponsor

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[3] PCAOB Release No. 2011-007 dated October 11, 2011

entity could require many hundreds of audit reports in a 12-month period. We believe that in those circumstances requiring single form reporting for each individual report issuance would be quite onerous, without providing any additional value to investors.

Hours-based reporting

We agree that measuring participation in the audit using hours is a reasonable benchmark. However, as described in more detail below, we believe the participation based on hours should be revised to focus on disclosing significant participation of those firms. In addition, given the proposed deadlines for filing firm information with the PCAOB, it is unclear how auditors will be able to accumulate hours incurred during the wrap-up and document-gathering phase prior to the required 45-day audit file archive date while still meeting the proposed 30 day filling requirement with any type of accuracy. This could be particularly challenging in audits involving other firms. While the use of estimates may be an option, we note that such estimations may result in less accurate reporting as there may be inconsistencies in how each firm uses estimates within their calculations. In our view, as noted above, accuracy is more important than expediting disclosures; accordingly we recommend periodic, such as annual, reporting.

A related potential challenge with hours-based reporting relates to audits where the foreign component is also subject to statutory audit requirements. For example, the work performed by the foreign member firm for the consolidated U.S. audit is used as audit evidence for statutory audit purposes. The hours incurred for those procedures are typically charged directly to the statutory audit and may not be readily discernible for reporting back to the U.S. lead auditor. Changing the filing requirements would provide firms with sufficient time to collect and report relevant hours to the parent audit firm timely and accurately.

Disclosures

We agree with excluding engaged specialists and non-accounting firm participants from the scope of firm information. We believe such exclusion is appropriate given the possible unintended consequences of the wide variety of how such information would be accumulated and the potential inconsistent application of the approach discussed in the Supplemental Request. This approach leaves much to interpretation and hinges on how firms have elected to legally structure their businesses; thus, firms may not apply it consistently, limiting the comparability of disclosures among firms. Therefore, we encourage the Board to exclude such participants from the final rule.

We are also supportive of using ranges of percentages for disclosure of other public accounting firms participating in the audit. While useful, we are concerned that the very specific proposed ranges could lead to an inappropriate conclusion that moving from one range to another range could be construed as "meaningful" information to the investors and other stakeholders. Our general view is that what is meaningful to investors would be the firms that played a substantial role (greater than 20% of the total hours); the firms that played a more than insignificant role (5-20% of total hours) and the firms that were involved but not to a significant extent (less than 5%). We believe this breakdown could be useful to users from an involvement perspective, without requiring the granular bands of disclosure that without any context (for example, on what areas were the hours spent) could result in inappropriate conclusions by the readers.

Voluntary disclosure in the auditor's report

We believe providing for voluntary disclosure will still pose risks and operational hurdles. We continue to believe that including such disclosures in the auditor's report will trigger consent requirements, which could delay filings and capital-raising activities. We remain concerned that providing a consent may cause one to be deemed the "maker" of a false statement in the financial statements under current judicial interpretations of Section 10(b) of the Securities Exchange Act of 1934. Moreover, we continue to share the concerns expressed by others as to increased liability under Section 11 of the Securities Act of 1933, especially when considering Section 11's lack of a causation or scienter requirement.

If the Board specifically includes or otherwise promotes the notion of voluntary disclosure, we believe this would cause inconsistent application of the standard and introduce risk that outweighs the benefits of disclosure directly in the auditor's report.

Economic considerations

We believe requirements to provide additional information about the audit will result in additional time and cost for firms and the other audit firms involved in the audit. Complying with the rule will require firms to implement new policies and controls and identify additional resources to manage the process and form filing. Additionally, it may require firms to track time differently and/or implement new systems.

Scope

We continue to support aligning any changes adopted for issuers with similar requirements for emerging growth companies and issuer brokers and dealers. However, we believe non-issuer brokers and dealers should be excluded from this requirement since the proposal is primarily focusing on providing information for the benefit of investors, and investors do not directly invest in non-issuer brokers and dealers. As such, disclosure of the engagement partner and certain other participants in audits of non-issuer brokers and dealers would not be beneficial to the general investing public.

Effective date

We believe additional time will be needed for firms to implement processes and controls over the preparation and submission of the required firm information. Time will also be needed to educate and assist member firms of our global network and other audit firms to establish and implement reporting processes, particularly in countries where component audit work is often used as audit evidence for the statutory audit (as discussed above). Therefore, we recommend the reporting requirement be effective for auditor's reports dated on or after December 31, 2016 or six months after the SEC approves the requirements, whichever is later. This additional time will enable firms to be operationally prepared to comply with the reporting requirements and vet any implementation issues that could arise.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Trent Gazzaway, National Managing Partner of Professional Standards, at (704) 632-6834 or Trent.Gazzaway@us.gt.com.

Sincerely,

Grant Thornton LLP

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PCAOB – Release No. 2015 – 004

SUPPLEMENTAL REQUEST FOR COMMENT: RULES TO REQUIRE DISCLOSURE OF CERTAIN AUDIT PARTICIPANTS ON A NEW PCAOB FORM

To the Office of the Secretary: comments@pcaobus.org

By way of background, we represent more than 40 pension funds and other long-term investors from around the world to engage with companies on matters that affect their long term value. We also engage with regulators and others on public policy matters that affect the environment in which our clients make their investments and own companies' equity and debt. In aggregate we represent more than $200 billion assets under advice.

Audit quality is an important issue for our clients. Without good quality audit, it is harder for our clients and other investors to assess the quality of the financial statements of the companies on which they make investment decisions. Current audit and audit committee reporting provides little insight into the quality of the audit and we are therefore pleased that the PCAOB and SEC are consulting on audit and audit committee related matters.

We would like to make the following points in relation to the consultation:

We welcome the idea that the audit partner is identified publicly. We believe that, notwithstanding protestations to the contrary, such public identification of the audit partner provides one further small measure of accountability for audit quality to a senior person within the audit firm who has led the audit. Such additional accountability provides a degree of additional comfort to our clients and other users of the audited reporting.

We would prefer that the identification of the audit partner is contained within the audit report as this is the most accessible and obvious place for such information to be held. If there are legitimate personal liability concerns that make this outcome more difficult to achieve, we are prepared to accept that this information is provided in other easy to access publicly available records if the personal liability concerns cannot be swiftly and effectively remedied.

While there are some transparency downsides to reporting the audit partner on a separate form, we believe that a searchable database could provide some useful additional transparency. For example, users should be able to search by audit partner to identify all audits by year he or she has undertaken after the disclosure rule takes effect. The database should also record audit firm for which the partner worked. This may prove useful to understand patterns of appointment, audit partner workload and where else to focus engagement effort if there are identified problems with the audited statements or an audit at one of the companies.

The suggested deadlines for filing are reasonable and there is no need to delay filing for the first year: the suggested requirement is not onerous.

We are not convinced that extending the disclosure regime to other entities achieves positive additional results and there are unintended consequences to the regime. The audit firm and the audit partner together with the audit committee should be the focus of any discussion on audit quality.

We believe that the implementation date suggested in the consultation is reasonable.

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July 24, 2015

VIA EMAIL
Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Re: Rule Making Docket 029: SUPPLEMENTAL REQUEST FOR COMMENT: RULES TO REQUIRE DISCLOSURE OF CERTAIN AUDIT PARTICIPANTS ON A NEW PCAOB FORM

Dear Ms. Brown:

I am an attorney practicing in Washington, D.C., in the fields of securities regulation and professional liability. Over the years, I have represented a number of auditors. I respectfully submit these comments on my own behalf and not on behalf of any current or former client.

Please note that I adhere to the views on the proposed rule communicated in my comment letter dated January 9, 2012, that disclosure of the identity of the engagement partner is unnecessary and should not be required. In substance, the Board now proposes that the identity of the engagement partner be mandated on a new PCAOB form, Form AP. I write now not to support such disclosure but, assuming only for the sake of argument that the Board adopts such a requirement, to urge that the disclosure as proposed be revised to avoid misleading public investors.

As the Board has taught, in a different context, "[t]he manner in which the audit is conducted lies primarily under the surface, and the strengths and weaknesses of the process are opaque." CONCEPT RELEASE ON AUDIT QUALITY INDICATORS at p. 6, PCAOB Release No. 2015-005, PCAOB Rulemaking Docket Matter No. 041 (July 1, 2015). Moreover, in the instant request the Board asserts that it wants disclosure "to better reflect the roles of both the firm as a whole and the engagement partner." SUPPLEMENTAL REQUEST FOR COMMENT: RULES TO REQUIRE DISCLOSURE OF CERTAIN AUDIT PARTICIPANTS ON A NEW PCAOB FORM at p. 3 , PCAOB Release No. 2015-004, PCAOB Rulemaking Docket Matter No. 029 (June 30, 2015). But targeting the engagement partner alone for disclosure fails to heed the Board's lesson or forward the Board's avowed goal.

An audit may require the deployment of numerous professionals in addition to an engagement partner. Investors should not be misled by a form flaunting a single name to assess and appreciate the "opaque" audit process. As I pointed out in my earlier comment letter, "[t]he value of an audit report to the investing public resides in confidence that a defined process has been applied by a professional organization with the staff, know-how, and resources to discharge that process in a professional manner." The naked disclosure of the identity of the engagement partner fails to communicate the importance of the process and the entire team assigned to the audit as distinguished from the role of a solitary professional. Apart from any potential liability or litigation issues created, the publication of the name of the engagement partner invites the creation of a celebrity culture that should have no part in the audit process.[1]

If the Board requires disclosure of the name of the engagement partner, I propose that it also supply the investing public with some necessary context for the engagement partner's role. This may be achieved by requiring disclosure of the proportion of hours that the engagement partner has worked on the audit compared to the total professional staff hours devoted to the project. In a large audit, an engagement partner may have worked only a minuscule proportion of the total number of hours required by the audit firm to complete the task.[2]

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[1] As I noted in my earlier letter, "[h]aving George Washington or a former high government official identified as the engagement partner will not promote the protection of investors. * * * I would think that fact irrelevant to audit quality. No one, however, will be able to convince the public that a George Washington audit report doesn't have a special added luster."

[2] The potential for a disproportionately small time commitment by the engagement partner has been recognized. When the Securities and Exchange Commission promulgated its Final Rule Regarding Auditor Independence, it noted generally that ten hours would be the minimum number of hours worked by a professional on an audit in order to make the independence requirement applicable. But, "the ten hour threshold does not apply to the lead or concurring review partner. Such individuals are always subject to these rules, regardless of the number of hours of audit, review or attest services provided." Securities Act Release No. 33-8183, Strengthening the Commission's Requirements Regarding Auditor Independence, n. 32 (January 28, 2003).

One of the Big 4 firms estimated that for fiscal year 2014 the ratio of audit-related hours performed by partners compared to staff among audit team members was at the rate of 1 to 19.2 and that would include all partner hours, not just an engagement partner's hours.[3] These temporal facts should be presented to the public too if the Board insists on disclosure of the name of the engagement partner. Such a disclosed ratio should be presented to several decimal places to capture the full range of hours worked by the entire staff compared to the work by the engagement partner alone. Additional disclosure weighting the hours of the engagement partner compared to the total audit effort will help to portray accurately the efforts of the named engagement partner within the framework of the entire audit process.

I thank you for the opportunity to submit the foregoing additional comments, reflecting my personal views on Rule Making Docket 029.

Respectfully submitted,

The Law Office of
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/s/ Edward B. Horahan III

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[3] PWC's fourth annual audit quality report, Our Focus on Audit Quality (May 2015) at p. 12, figure 5.

ILLINOIS CPA SOCIETY

August 31, 2015

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society ("Committee") is pleased to comment on the PCAOB's Supplemental Request for Comment: *Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (Docket Matter No. 29), dated June 30, 2015. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated.

We respectfully refer the Board to our previous Comment Letter dated February 4, 2014 regarding Docket 29. Many of the primary comments therein continue to be applicable in regards to this supplemental request. In summary, our Committee continues to believe that disclosure of the engagement partner's name and of certain other participants in the audit would not provide any appreciable investor protection, or enhance audit quality. Some of our more significant points raised in our prior letter include the following:

- Audit firms and partners already feel highly accountable for the quality of the work they control, perform and supervise.
- The proposed disclosure could diminish the understanding of investors and users by distorting the role of the engagement partner and that of the audit firm and other participants.
- Inferences made by users from linking engagement partners to specific auditor's report modifications and/or restatements may not be accurate or at least will not be well-informed.
- Issuers may start objecting to partners that are historically associated with modified or adverse opinions even though such results may be signals of higher quality audits.
- The proposed disclosure will increase litigation concerns and perhaps result in less willing audit participants.
- There are many practical issues with trying to properly identify and accumulate 'audit' hours among various participants in an audit.
- Percentage of audit hours often does not reflect the relative significance of a particular person's participation in an audit.
- We believe that it is the firm that is ultimately responsible for ensuring audit quality, not only the individual engagement partner.

However, if such disclosures are to be mandated, we agree that inclusion in a new PCAOB Form AP, as opposed to within the auditor's report or an appendix thereto, is more appropriate and will garner most of the perceived benefits of such disclosures while reducing the potential adverse unintended consequences of such disclosures.

The Committee is pleased to respond to the 12 specific questions posed by the Board:

1. Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?

ILLINOIS CPA SOCIETY

While we continue to believe that most engagement partners and public accounting firms already are highly accountable for their work, we believe there is no appreciable difference in the perceived increase in accountability between the alternative disclosure locations. In regards to transparency, only the incremental effort that investors make to retrieve the information from the Board's website would reduce immediate transparency. We note though, that it is the likely-to-be developed databases that link audit participant names to other metrics - such as restatements and going concern modifications - which companies and investors might become more interested in. As such, the location of just the audit participant names will not be as relevant. Similarly, it is the databases that will likely drive investors' and others' use of the information, and as such, its location would not impact that use.

2. Are there special considerations relating to the Form AP approach that have not been addressed in this supplemental request for comment? If so, what are the considerations? How might the Board address them? What are the costs of Form AP compared to the costs of disclosure in the auditor's report?

   We are not aware of any other special considerations. As described in the release, we would expect only a small increase in costs of disclosures (excluding legal-related costs) in Form AP versus in the auditor's report.

3. Would disclosure on Form AP mitigate commenters' concerns about liability? Are there potential unintended consequences, including liability- related consequences under federal or state law, of the Form AP approach? If so, what are the consequences? How might the Board address them?

   While we are not attorneys, we are not aware of any incremental liability concerns in using Form AP. We continue to believe that public disclosure of engagement partner names and names of other audit participants – regardless of the disclosure's location – will be perceived to increase potential liability and may deter some partners and firms from practicing under the Board's standards.

   While not directly on point to this question, when audit committees or management, in their good faith, engage an audit firm and a particular engagement partner and/or agree to a particular other participant in the audit, they may become susceptible to incremental liability exposure regarding their fiduciary responsibilities if they are aware of any adverse history regarding such persons – even if they have fully vetted the circumstances surrounding that adverse history and deemed it irrelevant to the performance of a high quality audit. In this regard, issuer costs might increase with expanded due diligence by audit committees and management to protect against this risk and/or to explain their due diligence procedures and conclusions to investors and others.

4. In addition to the required filing of the Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report? If so, what are those considerations or consequences? How might the Board address them?

   We do not believe that many auditors or firms would make the voluntary disclosures in their auditor's reports, unless their clients encourage such disclosures – which would potentially be the case when the engagement partner has a known/perceived good reputation and/or when there are no or very few other participants in the audit (which often is perceived as an indicator of a higher quality audit). Of course, the engagement partner's reputation or the above perception does not have any relevance to the actual quality of the audit in question. Additionally, voluntary disclosure will create unnecessary differences between reports, which may increase rather than reduce investor confusion. For these reasons, consideration should be given to prohibiting this voluntary disclosure.

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5. What search criteria and functionality would users want for information filed on Form AP? What additional criteria and functionality beyond what is described in Section IV of this release would be useful? Would third-party vendors provide additional functionality if the Board does not? Are there cost-effective ways to make the disclosure more broadly accessible to investors who may not be familiar with PCAOB forms?

   Users would likely want functionality to search the database of Form APs and aggregate findings, by partner, by company, by audit firm, by other participants and ultimately within a defined period. As described above, we believe that third-party vendors will likely develop databases that link the information included on Form AP to other information regarding auditor's reports, such as those that indicate restatements, going concern modification or material weaknesses in internal control. The Board might mandate or recommend that issuers provide clear instructions to users in their filings on how to access the Board's website and/or other third party websites that eventually develop their own databases.

6. Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP? Should the deadline be shorter or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (*e.g.*, 60 days) in the first year of implementation? Should the 10-day deadline apply whenever the auditor's report is included in a Securities Act registration statement, not just in the case of an IPO?

   Consideration might be given to requiring or allowing all Form APs (excluding those in first time filings) related to auditor's reports issued in one particular month to be filed by the end of the subsequent month as a way for audit firms and the Board to better manage the process.

   Another alternative is to change the filing deadline to 45 days to correspond with the archiving date rules. Particularly because the perceived benefits of the disclosures on Form AP will not be as great in the early years as in later years when cumulative data becomes available, an extension of time in the first year is advisable. In comparison of the 10 day requirement to file Form AP in an IPO situation to the 21 day requirement to have the IPO document on file before a roadshow begins, it seems that the audit firms could use more days in order to compile and report the required information than the users would need to retrieve and consider it. As such, perhaps 14 days is a more appropriate deadline for filing Form AP in those circumstances.

7. This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V? If the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficiently clear? Why or why not? Is the definition of control in Section V appropriate? Why or why not?

   We believe it is generally appropriate to not require disclosure of nonaccounting firm participants in the audit. However, in the intended spirit of the potential rule-making, such disclosure might be mandated only when the auditor, in his good faith estimate, believes that one or an aggregate of nonaccounting firm participant(s) provide more than a minimum level of assistance in the audit (e.g., greater than 10% of total hours if hours continues to be the disclosure metric). [Note that we continue to believe that it could be quite arduous for an accounting firm to determine the total audit hours and audit hours incurred by others with any appreciable accuracy.] In any case, we

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agree with the tailored disclosure which would exclude disclosure of nonaccounting firms controlled by or under common control with the accounting firm issuing the auditor's report. Incremental description/definition of 'control' would be beneficial, perhaps including known examples of organizational structures that do and do not typically result in control or common control.

8. Does Form AP pose any specific issues for EGCs? Would disclosure of the required information on Form AP promote efficiency, competition, and capital formation if applied to EGCs? If so, how? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard? Would creating an exemption for audits of EGCs benefit or harm EGCs or their investors? Why?

   We do not believe there to be any appreciably different impact or special issues related to the proposed disclosures or their location for EGC's compared to other issuers and their auditors. For example, audit committees and management of EGC's would be expected to do the same level of due diligence on selecting their auditor as other issuers regardless of these proposed rules. Investors and potential investors of EGC's would likely evaluate the proposed disclosures similarly. If that evaluation is negative, perhaps EGCs will have a more difficult time getting appropriate investors, which is contrary to the establishment of EGC's in the first place.

9. Does Form AP pose any specific issues for brokers, dealers, or other entities? If so, what are those issues? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard?

   We are not aware of any specific issuers for brokers, dealers or other entities.

10. Are the rules to implement Form AP, the instructions to Form AP, and the amendments to AU sec. 508 included in Appendix 1 clear and appropriate? Why or why not?

    Generally, yes. However, it is not clear whether the principal auditor in a divided audit situation needs to make disclosures in Form AP in regards to other accounting firms that participated in the conduct of the named other auditor's auditing procedures.

11. Are there additional economic considerations associated with mandated disclosure, either in the auditor's report or on Form AP that the Board should consider? If so, what are those considerations? The Board is particularly interested in hearing from academics and in receiving any available empirical data commenters can provide.

    We have not gathered any empirical data in this regard.

12. Assuming the Board adopts a rule during 2015, would it be feasible to make the requirement, either in the auditor's report or on Form AP, effective for auditors' reports issued or reissued on or after June 30, 2016, or three months after the SEC approves the requirements, whichever is later? How much time following SEC approval would firms need to implement the requirement either in the auditor's report or on Form AP?

    Particularly the 3 months timing may be challenging for certain accounting firms to develop the necessary internal practices to appropriately gather the necessary data to start filing compliant Form APs. A minimum 6 month period between formal adoption and initial filings is more appropriate. Disclosure in each auditor's report may be less time consuming for most accounting firms, although each would still have to develop applicable internal guidance on how to accumulate the required information.

ILLINOIS CPA SOCIETY

The Illinois CPA Society appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Elizabeth J. Sloan, CPA
Chair, Audit and Assurance Services Committee

James R. Javorcic, CPA
Vice Chair, Audit and Assurance Services Committee

ILLINOIS CPA SOCIETY

APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2015 – 2016

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. These members have Committee service ranging from newly appointed to almost 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

National:

Scott Cosentine, CPA	Ashland Partners & Company LLP
Eileen M. Felson, CPA	PricewaterhouseCoopers LLP
James J. Gerace, CPA	BDO USA, LLP
Michael Hartley, CPA	Crowe Horwath LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
John Offenbacher, CPA	Ernst & Young LLP
Matthew Rotta, CPA	McGladrey LLP
Elizabeth J. Sloan, CPA	Grant Thornton LLP
Kevin V. Wydra, CPA	Crowe Horwath LLP

Regional:

Jennifer E. Deloy, CPA	Frost, Ruttenberg & Rothblatt, P.C.
Barbara F. Dennison, CPA	Selden Fox, Ltd.
Genevra D. Knight, CPA	Porte Brown LLC
Andrea L. Krueger, CPA	CDH, P.C.

Local:

Matthew D. Cekander, CPA	Doehring, Winders & Co. LLP
Lorena C. Johnson, CPA	CJBS LLC
Mary Laidman, CPA	DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Carmen F. Mugnolo, CPA	Trimarco Radencich, LLC
Jodi Seelye, CPA	Mueller & Company LLP
Joseph Skibinski, CPA	Trimarco Radencich, LLC
Richard D. Spiegel, CPA	Steinberg Advisors, Ltd.

Industry:

Matthew King, CPA	Baxter International Inc.

Educators:

David H. Sinason, CPA	Northern Illinois University

Staff Representative:

Ryan S. Murnick, CPA	Illinois CPA Society

IDW
INSTITUT DER WIRTSCHAFTSPRÜFER

August 20, 2015

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Mr. Martin F. Baumann
Chief Auditor and Director of
Professional Standards
Public Company Accounting Oversight Board
c/o Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 20006-2803
USA

By e-mail: comments@pcaob.org

Dear Mr. Baumann,

Re.: PCAOB Rulemaking Docket Matter No. 029: PCAOB Release No. 2015- 004, June 30, 2015
Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form

The IDW would like to thank you for the opportunity to comment on the above mentioned Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form, released June 30, 2015 (hereinafter referred to as the "supplemental request").

We provided comments on the previous Release under this docket number in a letter dated March 17, 2014, and now refer to certain aspects of that letter in the context of our comments concerning the supplemental request, where appropriate.

For the reasons explained in our previous letter, the IDW has elected not to comment on the proposed disclosure of the name of the engagement partner. We do, however, have certain concerns as to some of the other matters addressed in the supplemental request. We again stress that these concerns relate solely to the situation where the (principal) auditor assumes responsibility for the entire audit or for a specific part of the audit, and uses the work of others in so doing.

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feld, WP StB CPA;
Manfred Hamannt, RA

INSTITUT DER WIRTSCHAFTSPRÜFER

In this letter we have chosen not to respond to individual questions raised, but to comment instead on those areas with which we have concerns.

Disclosure of the Names of Other Audit Firms – Alternative Proposals

In the U.S. three possibilities are currently under discussion in regard to the disclosure of other participants in the audit. In addition to the PCAOB's current debate as to whether audit firms might be required to submit certain information to the PCAOB using a new form, the supplemental request indicates that the PCAOB continues to consider that firms might also choose to include information in the auditor's report.

On July 1, 2015 the SEC introduced a third possibility in issuing a Release on Possible Revisions to Audit Committee Disclosures[1]. Amongst other things, the SEC Release builds upon the fact that PCAOB Standards already require the auditor provide certain information to the audit committee and discusses whether the Commission should require audit committees to make additional disclosures pertaining to other firms involved in the audit. Indeed, this SEC Release acknowledges that some commenters on the PCAOB's earlier proposals suggested it may be more appropriate for any requirement for such proposed disclosures to be considered by the Commission rather than the PCAOB. However, the PCAOB's supplemental request indicates no willingness to explore whether it might be more appropriate for the auditor to provide this information to the audit committee and for that body to report publically in the context of their oversight responsibilities for the audit and the appointment of the auditor as an alternative to its own proposals. In our view, and given our previous comments on this issue, such exploration would be appropriate.

As we have previously stated, we believe that, in view of their access to comprehensive information pertaining to the audit, it is the members of the audit committee who are better placed to benefit from the detailed information concerning other participants in the audit proposed in the 2013 Release. Such information would directly assist audit committees in making an informed

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1 Specifically in question 48 of its release the SEC asks: "For example, should the names of the other independent public accounting firms and other persons involved in the audit be disclosed? Should the extent of involvement by these other participants be disclosed? Why or why not?" and question 49: "Should the names of other participants be included in the required disclosure instead of in the auditor's report? Should the names be disclosed elsewhere? If so, why? Would investors benefit from having all the information located in the audit committee report?"

IDW
INSTITUT DER WIRTSCHAFTSPRÜFER

decision in their auditor selection procedures and in their oversight of the audit. In contrast, the public would lack the essential contextual information for such disclosure to be of true value, and making such disclosure publically available without the context could even have drawbacks as discussed in the next section of this letter.

For this reason, we suggest that public reporting by the audit committee on the audit with details on aspects such as other participants in the audit would be a preferable alternative to the PCAOB's proposals. The audit committee could provide an appropriate and sufficient level of contextual detail in justifying the selection of the auditor and in explaining its own oversight of the audit. This would inform the public as to audit participants in an appropriate context and also increase the public's trust in the role of the audit committee for appropriate auditor selection at the same time. We recognize that this would require SEC, rather than PCAOB, rulemaking.

Disclosure of the Names of Other Audit Firms – Implications for the Audit Market

We appreciate that investors have an interest in learning which firms have played a significant role in the audit via a medium other than the auditor's report. However, we remain of the opinion that requiring the auditor to provide detailed information about participants in the audit along the lines – and, more specifically, to the degree of detail – originally proposed and for that information to be made publicly available by the PCAOB is not the most appropriate solution.

To the extent the proposals may have originally been designed to address the situation the PCAOB encountered vis a vis access to enable inspection of non-U.S. audit firms, we had also previously stated that we considered the proposals as having detrimental effects on the audit market beyond the U.S.; effects that may actually decrease audit quality.

As our previous letter explained, requiring the auditor to provide detailed disclosure as to other audit firms (i.e. using a threshold well below the Board's "significant role" definition) may result in unjustified investor pressure to use well-known firms, rather than firms with the greatest expertise in a certain market. To the extent that such pressure were to be based on lack of information – because such disclosure cannot be accurately evaluated without knowledge of the appropriate context – or prejudices, it would potentially have an inappropriate impact on the audit markets within and outside of the U.S. that may be detrimental to audit quality.

We fear that such impact would likely be particularly detrimental to less well-known and smaller and medium-sized audit practices and firms (SMPs) within and especially beyond the U.S. – firms that deliver high quality audits. We refer to the detailed comments submitted in our previous letter in this context.

Disclosure of Nonaccounting Firm Participants

As previously stated we are not convinced as to the usefulness of the proposed disclosures. We again suggest the Board consider a risk-based approach aimed at ensuring the principal auditor's involvement in the audit is appropriate overall, as we believe that such an approach would be more beneficial to investors in terms of the impact on investors' perceptions of audit quality. In those cases where significant audit work is undertaken by nonaccounting firm participants, we believe that the audit committee would be an appropriate party to evaluate and, where appropriate, report on this aspect of the audit.

If you have any further questions about our comments, we would be pleased to discuss our comments with you.

Yours very truly,

Klaus-Peter Feld	Gillian Waldbauer
Executive Director	Head of International Affairs

541/584

The Association of Accountants and Financial Professionals in Business

August 5, 2015

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

Re: Rulemaking Docket No. 029, PCAOB Release No. 2015-004, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*

Dear Board Members:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the PCAOB's Release No. 2015-004, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (Release).

The IMA is a global association representing over 75,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and users. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Information on the FRC can be found at www.imanet.org and in the Advocacy Activity section under the About IMA tab.

Overview

The Release primarily asks whether the name of the engagement partner and other audit participants should be provided in a form to be filed with the PCAOB rather than having such information disclosed in the auditor's report, as had been proposed earlier. This change in presentation is intended to address concerns about legal and SEC filing issues raised by accounting firms. However, as clearly expressed in our January 21, 2014 and January 16, 2012 letters, we continue to believe that the Board has not made a persuasive case for requiring disclosure of the name of the engagement partner. As explained in those earlier letters and reiterated in this letter, we continue to believe that naming the engagement partner in any document is unnecessary for the following reasons and is, in the words of a PCAOB member, "a solution in search of a problem."

- Naming a single individual as implicitly being fully responsible for an audit contradicts the team effort involved. We believe most users do not find such information valuable in making investment decisions. In any event, whether this would be of use to investors and should be disclosed in some manner should be the responsibility of the SEC. This issue is currently being considered as part of the Commission's audit committee disclosure project and the PCAOB should table any action subject to a SEC decision.

- There is no compelling evidence that being named publicly would motivate engagement partners to perform better and, therefore, lead to higher quality audits. Given all of the checks and balances involved in the audit review process as well as the numerous ways in which engagement partners can be second guessed, we simply do not see how there can be a much higher level of "accountability" than presently exists.

Value of Engagement Partner Disclosure

Our January 21, 2014 letter expressed the concern, in particular, that naming engagement partners could only lead to incomplete and perhaps even misleading data being collected and reported. As noted above our experience is that the audit is a team effort. For some of our preparer committee members, there are as many as twenty or more audit partners subject to mandatory rotation. Our preparer committee members also note that it is not unusual to interact with several of partners on a daily basis.

From our experience in working on or assisting audit committees in their process of selecting new engagement partners, we see no use for a database of engagement partner names. Our experience in the decision making process regarding new auditors and in the reality of the team vs. individual approach to the audits, no single audit partner is pivotal to the decision making process.

During our discussions in preparing this letter, a FRC user member observed that he (and he believed many of his peers) would not derive any utility from disclosure of engagement partners. He indicated that he usually looks at the auditor's report only to see the name of the firm and if there is any qualification. Another FRC member working as a consultant with investors on due diligence reviews echoed that observation. This leads us to conclude that disclosing a single name has little value to users and investors.

In the SEC's Concept Release, *Possible Revisions to Audit Committee Disclosures*, the Commission includes questions 34-42 asking whether disclosure of the name of the engagement partner would be useful to investors. And the questions also ask where such disclosure should be made if it is deemed to be useful. During the fairly long life of this project at the PCAOB, the principal rationale for disclosure of the audit partner has switched from improvement of audit quality (although that is still part of the motivation for at least some Board members) to providing decision useful information to investors. As we noted in our last letter when quoting former Board member Dan Goelzer, the latter responsibility belongs primarily to the SEC and not the PCAOB. Thus, given that the Commission has formally taken the ball into its court by including the issue in the related project, the PCAOB should table any further work on this matter unless the SEC decides to cede it back.

Accountability

We did not say a lot about this issue in our last letter. We did reject the notion that naming the engagement partner would improve audit quality. As we said then, "We cannot fathom that there is another level of quality to which accounting firms can somehow rise as a result of the engagement partner having his or her name included in the report and feeling more 'accountable.'"

Most of us who are not presently working for an accounting firm did so earlier in our careers. So we observed first-hand the extensive quality control procedures employed through the engagement partner

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in Business

level. And we are constantly made aware of the challenging inspections by the PCAOB staff that hang like the proverbial sword over the engagement partner's head. S/he is, of course, also subject to SEC reviews, civil litigation and so on. In short, how much more fear can be put in the minds of engagement partners?

In our discussions in preparing this letter, the words "cannot fathom" in our last letter actually did not seem strong enough. Several members stated that requiring the naming of engagement partners to promote a higher level of accountability is a professional insult to the dedication that most engagement partners demonstrate today and an insult to the accounting profession.

****

We would be pleased to discuss our comments with the PCAOB or its staff at your convenience.

Sincerely,

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com

From: Mural Josephson
To: Comments
Subject: Proposal to Require the Naming of the Audit Partner
Date: Wednesday, July 01, 2015 2:23:30 PM

I am a retired Big 4 audit partner with 30 years of practice, mostly involving public companies. I fail to see any benefit of naming the audit partner or other team members to the investor community. With thousands of CPAs in key engagement roles on public companies, what knowledge could investors have of a particular individual? Even large institutional investors rely on proxy advisory firms regarding election of directors, who are far fewer in number than the relevant CPAs.

Adoption of this rule will heighten the risk of an individual practitioner to litigation, most likely frivolous, given the bent of the plaintiffs bar in the mockery they are making of securities law. A partner signs on behalf of the firm and that is the only name investors need to know to make informed decisions. Please don't give the lawyers another arrow in their quiver.

Respectfully,

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August 31, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

PCAOB Rulemaking Docket Matter No. 029
Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form

Dear Ms. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2015-004, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (the Supplemental Request for Comment or the Proposal).

The Board has requested public comment on proposed rules that are intended to improve transparency of public company audits. The Proposal would require communication in a new PCAOB form of (1) the name of the engagement partner on the most recent period's audit and (2) the name, headquarters location, and extent of participation of other public accounting firms that took part in the audit.[1]

Overview

We agree that the proposed approach described in the Supplemental Request for Comment, which would require the disclosure of the name of the engagement partner and certain information about other public accounting firms that participated in the audit in a new form to be introduced by the PCAOB (Form AP, *Auditor Reporting of Certain Audit Participants*), accomplishes the Board's goal to increase transparency to investors.[2] We also believe that such disclosure in Form AP would avoid the legal and logistical issues that we raised in our March 13, 2014 comment letter on PCAOB Release No. 2013-009, *Improving The Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (the Prior Release).

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[1] Per the Proposal, the name and headquarters location of other public accounting firms that took part in the audit would not need to be communicated if their level of participation was below five percent of the total audit hours.

[2] We do not believe, however, that the proposed disclosure of the name of the engagement partner will increase the engagement partner's sense of accountability, improve audit quality, or result in independent public accounting firms enhancing their system of quality control (e.g., through changes to the assignment protocols for an engagement partner).

Calculating Participation Percentages

Based on the current rules as proposed, we believe the process of calculating the level of participation will be subject to various estimates, which may lead to diversity in practice. We believe that more conformity in the reported level of participation can be achieved through additional guidance from the PCAOB as to how to determine the hours to be included in the numerator and denominator for a participating public accounting firm when such firm performs work both in connection with the consolidated audit as well as for statutory audit reporting purposes.

We also believe that additional guidance from the PCAOB regarding the calculation of the level of participation for those situations where a participating public accounting firm audits an equity method investee of the issuer (assuming that the independent public accounting firm that issued the auditors' report at the issuer level assumes responsibility for the work of the participating public accounting firm) will be helpful. As an example, should the hours for the participating public accounting firm that audits the equity method investee reflect the total hours incurred on that engagement, or should such hours be weighted by the ownership level held by the issuer in the equity method investee? Also, situations could arise where the independent public accounting firm that issues the auditors' report at the issuer level may not be able to obtain information about the hours attributable to the participating public accounting firm that audits the equity method investee, which would further complicate being able to perform the calculation that is required to determine the level of participation by such firm.

Nonaccounting Firm Participants

We support the Board's preliminary decision as set forth in the Proposal to not require disclosure of nonaccounting firm participants on Form AP. However, should the Board ultimately decide that disclosure of nonaccounting firm participants should be required, we generally agree with the more tailored approach as described in the Supplemental Request for Comment.[3]

Scope

Under the Proposal, Form AP would be required to be filed for non-issuer brokers and dealers, which are required to be audited in accordance with PCAOB standards. We continue to recommend that the Board exempt non-issuer brokers and dealers from the requirements of the Proposal. As noted in the Prior Release, the ownership of brokers and dealers is primarily closely held (per the PCAOB's Office of Research and Analysis, approximately 75% of the brokers and dealers have five or fewer direct owners), and the direct owners are generally part of the entity's management.[4] Therefore, the informational needs of these individuals would typically be different from those of an investor in a widely-held publicly traded company.

[3] See page 11 of the Supplemental Request for Comment.

[4] See page 27 of the Prior Release.

Similar to our views previously communicated in our March 13, 2014 comment letter on the Prior Release, we continue to believe that the Proposal should be applicable to emerging growth companies, and therefore recommend that no exemption from the proposed rules be provided for such companies, if the PCAOB decides to proceed with the Proposal.

Other Matters

Deadline Timing

Under the Proposal, Form AP would be required to be filed by the 30th day after the date the auditors' report is first included in a document filed with the Securities and Exchange Commission (SEC).[5] We request that the Board consider a deadline of 60 days from the date that the auditors' report is first included in a document filed with the SEC. This timing would give firms sufficient time to accumulate final hours from the other public accounting firms that participated in the audit, so that the firm could accurately report the level of participation by the other public accounting firms, with less estimation. A filing deadline of 60 days would also reduce the number of amended Form APs that would need to be filed to revise the level of participation of other public accounting firms (due to the original Form AP being completed using estimated hours versus actual hours), since it is possible that hours could be incurred by the firm or other public accounting firms that participated in the audit up to 45 days after the report release date, in connection with assembling the final audit documentation pursuant to Auditing Standard No. 3, *Audit Documentation*.

Filing of the Form AP

KPMG LLP audits approximately 1,500 issuers and approximately 200 broker dealers. As currently proposed in the rules, a separate Form AP would need to be filed for each issuer, broker dealer, investment company, and/or employee benefit plan. There is an administrative aspect on the larger firms of having to file a significant number of individual Form APs that we believe should be considered by the PCAOB, in finalizing the rules. Accordingly, we strongly encourage the PCAOB to allow firms to include information related to multiple audits on a single Form AP.

In addition, we believe more specific guidance about when Form AP will need to be refiled will be helpful. For example, it is unclear to us as to whether a new Form AP would need to be filed when the auditors' report for an issuer is reissued (e.g., if an issuer were to file a registration statement that incorporates by reference its financial statements included in a previously filed Form 10-K, including our auditors' report). In such situations, we believe that a Form AP should not be required to be refiled, assuming there were no changes to the information included in the Form AP when it was originally filed.

[5] See page A1-1 of Appendix 1 in the Supplemental Request for Comment.

Effective Date

The proposed effective date set forth in the Supplement Request for Comment would be for auditors' reports issued or reissued on or after June 30, 2016, or three months after approval of the requirement by the SEC, whichever occurs later. Firms, especially larger ones such as KPMG LLP, will need sufficient time to develop the appropriate policies and procedures to implement the proposed rules. We do not believe the proposed effective date of June 30, 2016 will allow us enough time to implement the necessary systems. Instead, we recommend that the effective date of the final rules should be for auditors' reports issued on or after June 30, 2017. The additional time will help to ensure full and accurate reporting, and a mid-year effective date of June 30, 2017, as opposed to an earlier effective date such as December 31, 2016, will provide firms the ability to adopt the proposed rules during a slower time in the year, since many firms have a client portfolio that is heavily weighted towards clients with a calendar year end.

Alternatively, in order to allow firms sufficient time to develop the appropriate policies and procedures to accurately capture the hours related to other public accounting firms that participated in the audit, we recommend that the Board consider implementing a phased approach, whereby disclosure of the information to be provided in Part IV of Form AP would not be required in the first year that the rules are effective.

* * * * * * * * *

We appreciate the Board's careful consideration of our comments, and support the Board's efforts to improve the transparency of public company audits through the communication of certain information via Form AP about other public accounting firms that participated in the audit. In addition, if the PCAOB decides to move forward with a requirement to disclose the name of the engagement partner, we agree with the proposed approach described in the Supplemental Request for Comment, whereby such information would also be provided in Form AP. If you have any questions regarding our comments included in this letter, please do not hesitate to contact George Herrmann ((212) 909-5779 or ghermann@kpmg.com) or Rob Chevalier ((212) 909-5067 or rchevalier@kpmg.com).

Very truly yours,

KPMG LLP

KPMG LLP

cc:

PCAOB
James R. Doty, Chairman
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Steven B. Harris, Member
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Julie Erhardt, Deputy Chief Accountant

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket No. 029 August, 4, 2015

Dear Madam Secretary:

My name is Alberto Forchielli and I am the Managing Partner of Mandarin Capital Partners and Chairman of Osservatorio Asia. I have lived and worked in Asia for 21 years and have had a particular focus on China for much of the last decade. The investment fund I represent has directly and indirectly (through our portfolio companies) invested or considered investment opportunities in China over the last eight plus years. The frauds and fraudulent actions we have observed and lived through has made us very cautious about both investing in China or co-investing abroad with Chinese partners. Because of my long experience investing in China and my desire to see an improvement in the investment climate there. I read with great interest the PCAOB's proposal to require auditors to disclose in the auditor's report the name of the engagement partner and information about certain other participants in the audit. In response to the PCAOB question as to whether disclosure on Form AP ,as described in your release, would achieve the same potential benefits of transparency and accountability as mandatory disclosure in the auditor's report itself, I have to say no, but such a proposal is better than the status quo. The engagement partner of the audit is the individual most directly accountable for the audit. I do not believe he or she should shy away from signing or being otherwise personally identified with the work product he or she is most directly responsible for. In terms of what impact this might have with respect to Chinese issuers where U.S. investors have lost hundreds of millions of dollars. I believe that by easily identifying the engagement partner in the audit report itself, it would help investors differentiate among engagement partners based on the reliability of their work. Perhaps even more importantly it would change the mindset and behavior of the engagement partner by making him of her more fully aware of their ultimate accountability. It encourages worthy professional behavior if professionals know they will be known and recognized for carrying out their duties in truly accurate and professional manner. Thank you for working on this matter which can help curb fraud and abuses that investors often face in investing in China and other developing markets.

Respectfully submitted,

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August 28, 2015

Office of the Secretary
Public Company Accounting Oversight Board
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Re: PCAOB Rulemaking Docket Matter No. 029

McGladrey LLP appreciates the opportunity to offer our comments on Public Company Accounting Oversight Board (PCAOB) Release No. 2015-004, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*. McGladrey LLP is a registered public accounting firm serving middle-market issuers, brokers and dealers.

As discussed in our January 29, 2014 comment letter on PCAOB Rulemaking Docket Matter No. 029, we support increased transparency related to the audit where such transparency improves audit quality or better enables financial statement users to make well-informed decisions about their investments or their voting decisions. We continue to believe, however, that a balance must be achieved when weighing the potential benefits of transparency with the impact of the associated costs and consequences for audit firms, audit partners, issuers, and the capital markets at large. We therefore appreciate the PCAOB's responsiveness to the concerns raised about the significant potential unintended consequences, liability implications and practical challenges that would have been associated with providing disclosure in the auditor's report of the name of the engagement partner and information about certain other participants in the audit.

We agree that the use of Form AP, *Auditor Reporting of Certain Audit Participants*, is a more appropriate disclosure mechanism, which will provide the requisite information to investors in a transparent manner with fewer associated costs and unintended consequences than those resulting from disclosure in the auditor's report. Disclosure of the engagement partner's name in Form AP, instead of in the auditor's report, will avoid liability concerns under Section 11 of the Securities Act and obviate any need for additional time and fees to obtain a consent from the engagement partner under Section 7. Also, identifying the engagement partner and providing information about certain other audit participants in Form AP, instead of in the auditor's report, will allow for the convenient and efficient use of this information by investors and others because the information will be accessible in one location and will be searchable. The housing of information by the PCAOB in one location on Form AP also will help to ensure historical information is complete and can be compiled accurately by those who may desire to do so.

However, we continue to have significant concerns about how the disclosure of the identity of the engagement partner without appropriate context will help investors make better informed decisions. Including the engagement partner's name in Form AP does not provide the appropriate context around or insight into the partner's work experiences or skill level. This lack of disclosure of relevant facts could cause investors to draw inappropriate conclusions about an engagement partner's qualifications to serve as the engagement partner for an issuer especially if the engagement partner is the partner of record for a limited number of issuer audits.

We also caution that there is no clear evidence about whether public disclosure of the name of the engagement partner or information about certain other audit participants will improve audit quality. We do not believe disclosure of the name of the engagement partner will impact the performance of the professional duties of these individuals as they already are accountable to multiple parties, including their firms, their clients and regulators. More importantly, they are accountable to the investors and others who use the auditor's report.

In this letter, we explain our views about voluntary disclosure in the auditor's report regarding the engagement partner and other accounting firms participating in the audit. We also address certain matters related to implementing some of the specific requirements of proposed Rule 3211, *Auditor Reporting of Certain Audit Participants,* and Form AP.

Voluntary disclosure in the auditor's report

In considering requiring disclosures regarding the engagement partner and other accounting firms participating in the audit to be made on Form AP, the PCAOB has stated, "Auditors would not be required to include the information in the auditor's report but could choose to do so in addition to filing the form."[1] As discussed in our January 29, 2014 comment letter, identification of engagement partners and other participants in the auditor's report increases concerns about liability as to claims under Section 11 of the Securities Act of 1933. In addition, as discussed in our prior letter, when engagement partners and other participants are named in the auditor's report, there will be practical challenges and additional costs associated with obtaining consents.

We believe providing auditors with the option of disclosing in the auditor's report the name of the engagement partner and information about other accounting firms participating in the audit will create inconsistencies in audit report disclosures as a few firms' auditors' reports may have this disclosure, while others may not. This disparity in practice will create confusion for investors and will negate the advantages of only having such information housed in one searchable location. Also, in Release No. 33-9862, *Possible Revisions to Audit Committee Disclosures*, the SEC has requested comment on whether disclosure by the audit committee of the name of the engagement partner would be useful to investors. Should the SEC require audit committees to disclose the name of the engagement partner, there would be even more diversity as to where an investor could go to find the name of the engagement partner. We therefore do not believe auditors should have the option of disclosing in the auditor's report the name of the engagement partner and information about other accounting firms participating in the audit. If the PCAOB chooses to continue to consider this option, we believe it would be prudent to wait for any possible revised SEC rules regarding audit committee disclosures, including the name of the engagement partner.

Rule 3211

Filing of Form AP upon report reissuance

Proposed Rule 3211 (a) states, "For each audit report issued pursuant to PCAOB standards for the audit of an issuer or broker or dealer, each registered public accounting firm must file with the Board a report on Form AP in accordance with the instructions to that form." Although Item 3.1.d of Form AP indicates a dual-dated audit report is included in the scope of Rule 3211, the language in Rule 3211 is unclear as to whether Form AP needs to be filed each time an auditor's report is reissued. Release 2015-004 states, "Since the obligation to file Form AP would be tied to the issuance of the auditor's report, if the auditor's report is reissued and dual-dated, a new Form AP would be required even when no other information on

[1] PCAOB Release No. 2015-004 – page 5.

the form changed."[2] If it is the PCAOB's intention that Form AP be refiled with every audit report reissuance, we believe this would include filing a Form AP with each registration statement amendment, even if none of the information in the Form AP has changed in the short period of time between amendments. It would be helpful to the profession if the language in Rule 3211 was clarified to reflect exactly when a Form AP needs to be filed, including whether a Form AP needs to be filed when the auditor's report has been reissued, but none of the information in the Form has changed. We believe a new Form AP only should be required upon reissuance of an audit report if the information previously provided on Form AP is no longer accurate.

Filing of information for multiple engagements on one Form AP

As proposed, Rule 3211 (a) would require a registered public accounting firm to file "a report on Form AP" for each audit report issued pursuant to PCAOB standards for the audit of an issuer or broker or dealer. The proposed Rule does not discuss an option to allow firms to file a single Form AP covering multiple audit engagements. Filing a single Form AP for each individual audit will be time consuming and could be particularly burdensome for firms during the period following the issuance of numerous reports for audits of issuer financial statements with calendar year ends. We believe it would be more efficient for both audit firms and the PCAOB if firms could be provided the option of filing the requisite information for multiple engagements on a single Form AP, for example, filing a single Form AP covering all audit reports issued during a single month.

Deadline for the filing of Form AP

The Board is considering a Form AP filing deadline of 30 days after the date the auditor's report is first included in a document filed with the SEC, with a shorter deadline of 10 days for initial public offerings (IPOs). We believe it would be more appropriate to allow firms to file Form AP by the 45th day after the date the audit report is first included in a document filed with the SEC, with a shorter deadline of 10 days for IPOs. Our proposed 45-day deadline for the filing of Form AP would be consistent with the documentation completion date dictated by PCAOB Auditing Standard No. 3, *Audit Documentation*, which provides that a complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date. We believe the additional 15 days would allow more time for the accumulation of hours spent assembling the final audit documentation. It also would allow more time to accumulate hours from other participating accounting firms, which may result in less estimation and therefore more accurate reporting of audit hours used in the disclosure of information about other accounting firms participating in the audit.

Part IV of Form AP – definition of total audit hours

The proposed instructions for completing Part IV of Form AP state that the engagement quality reviewer is excluded from the disclosure requirement and from the definition of "total audit hours in the current period's audit." We do not believe that the audit hours provided by the engagement quality reviewer should or need to be excluded from total audit hours as defined. The engagement quality review is a requirement under PCAOB Auditing Standard No. 7, and those audit hours are included in the audit fee disclosed in the proxy statement. The effort to carve out the hours of the engagement quality reviewer (and any assistants) provided in connection with the audit and interim reviews creates one more administrative matter to be addressed when preparing the Form AP, and these hours would not seem to materially distort the denominator when measuring total audit hours.

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[2] PCAOB Release No. 2015-004 – page 9.

Nonaccounting firm participants

For the reasons articulated in our January 29, 2014 comment letter, we agree with the Board's proposal to not require disclosure of information regarding nonaccounting firm participants.

Application to audits of emerging growth companies

If the PCAOB proceeds with the requirement to disclose the name of the engagement partner and information about other audit participants in Form AP, we believe the requirement should apply to audits of emerging growth companies. Extending the requirement to emerging growth companies would help to ensure historical information gathered on Form AP is complete for all issuers and can be searched accurately by those who may desire to do so.

Application to audits of brokers or dealers

If the PCAOB proceeds with the requirement to disclose the name of the engagement partner and information about other audit participants in Form AP, we believe the requirement should not apply to audits of nonissuer brokers or dealers because such entities are privately held and therefore do not have investors who would need to learn the name of the engagement partner or information about other audit participants through a form that is available to the public.

Effective date

We believe there will be logistical and administrative challenges in meeting the requirement for filing information on Form AP effective for auditors' reports issued or reissued on or after June 30, 2016 or three months after the SEC approves the requirements, whichever is later. We believe firms will need adequate time to (a) develop internal systems, processes and controls necessary to gather and report the requisite information and (b) educate other accounting firms that participate in the audit regarding their reporting requirements. We therefore suggest the requirement for filing information on Form AP be effective no sooner than for auditors' reports issued on or after December 31, 2016 or one year after the PCAOB releases necessary implementation guidance to address the matters posed in comment letters in response to Release 2015-004, whichever is later.

We would be pleased to respond to any questions the Board or its staff may have about our comments. Please direct any questions to Scott Pohlman, National Director of SEC Services, at 612.455.9499 or Sara Lord, National Director of Assurance Services, at 612.376.9572.

Sincerely,

McGladrey LLP

McGladrey LLP

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MAUREEN MCNICHOLS
MARRINER S. ECCLES PROFESSOR OF
PUBLIC AND PRIVATE MANAGEMENT AND ACCOUNTING

August 31, 2015

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW Washington, DC 20006-2803

VIA EMAIL: comments@pcaobus.org

Re: Rulemaking Docket Matter No. 029, PCAOB Release No. 2015-004 — Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form.

Dear Members of the PCAOB:

I am submitting this letter to provide input for your deliberations on PCAOB Release no. 2015-004 concerning disclosure of engagement partner identity and information about other participants in an audit. My views are informed by my experience teaching accounting and conducting research on the role of accounting information in capital markets since the late 1970's. They are also informed by my service on the board of directors and audit committee of a public company from 2003 to 2006, and on the PCAOB Standing Advisory Group since January 2014.

I support the PCAOB's proposal to require disclosure of the audit partner's name on Form AP and to provide information about other participants in the audit. This is a well-reasoned proposal that yields useful information to investors and avoids potential litigation costs associated with filing in the auditor's report. The appendix carefully reviews the relevant evidence on economic costs and benefits of greater transparency. The benefit of greater transparency for investors is substantial. The PCAOB's inspection results indicate variation in audit quality across engagement partners. The comment letters of investors and investor groups ask for engagement partner data to support their assessment of audit quality, and the studies discussed in Appendix 2 on engagement partner disclosures indicate the data are useful in several other countries. Furthermore, disclosure will enable research that addresses many questions about auditing that have the potential to improve audit quality.

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I believe disclosure will also increase the alignment of the auditor's incentives with financial statement users. This is supported by the Report of the Advisory Committee on the Auditing Profession, recent empirical research examining this question with data from Sweden and the United Kingdom, and the effects of auditor disclosure at the General Accounting Office described in Charles Bowsher's February 26, 2014 letter.[1]

Given the benefits to investors and researchers, it seems the question to address is the potential cost of disclosure. The cost of greatest concern to most of the auditing firms submitting comments relates to liability, and I am persuaded by the discussion in the Supplemental Request and many comment letters that Form AP will not lead to increased liability. I therefore expect that the benefits of additional information on engagement partners and other participants in audits will exceed the costs of its production.

I expect that the Form AP mechanism will be very useful to investors and researchers interested in accessing data on auditor identity. Key requirements to make these data readily accessible are that the database is searchable and downloadable. Key data items include the audit firm, audit partner, client, year and month of the fiscal year of the client's financial statements, and the date and time of the filing of the Form AP. The proposal to identify the client by its CIK allows matching with other databases with client-related information. The proposal would require the auditor to be identified by name, but it would be helpful if the auditor is also identified by a unique ID code. This would provide clear identification of auditors with the same or similar names, and also help to track individuals who may transition to a different audit firm.

In addition to providing insights about variation in assignments, experience and audit-related outcomes, I expect that the new information will be used to address questions about the arc of an auditor's career and learning over time and across engagements.

Some letters express concern that investors may misunderstand the role of the engagement partner, I do not share this concern. There is extensive evidence that investors process public information in a sophisticated manner and investor responses to public disclosures cause relevant information to be reflected in security prices.[2] This in turn contributes to appropriate allocation of resources in the economy. To the extent disclosure of engagement partners allows investors to better assess audit quality and price its implications, resources will be better allocated and incentives for higher audit quality will be further reinforced.

[1] See Knechel, Vanstraalen and Zerni, (2015, Contemporary Accounting Research), and Carcello and Li (2013, The Accounting Review).

[2] I will mention just a few studies from a large literature. McNichols (1989, The Accounting Review) documents that investors at least partially undo bias in management forecasts at the time the forecast is issued. McNichols and Stubben (2008, The Accounting Review) document that firms that restate their earnings have suboptimal investment in the period of misstated earnings. McNichols and Stubben (2015, Review of Accounting Studies) document that acquirers make more efficient acquisitions when target earnings quality is higher. Gipper, Leuz and Maffett (August 2015 University of Chicago and PCAOB working paper) document that PCAOB audit oversight increases investors' assessments of reporting credibility, leading to more pronounced price and volume reactions to financial statement information.

With time, the proposed data on auditor identity can also provide insight into when rotation takes place within a firm. It would be helpful in the first years of disclosure to know the number of years of annual audits the individual has served as engagement partner, or the partners for the prior years associated with a given year's financial statements, if this is not onerous for the firms to provide. Once the database has been in operation five years, investors can determine this from the history but until then, this would be a useful disclosure.

The proposed data on the role of other participants in the audit will also be very useful as the database builds up over time, to produce a better understanding of the manner in which the audit relies on other auditors. However, in response to concerns regarding implementation, if the implementation to disclose other participant data poses more challenges than to disclose the engagement partner identity, I would favor phased implementation of the other participant data to delaying disclosure of the engagement partner.

With regard to Form AP and the SEC's proposal to include information about the engagement partner in the audit committee's report, Form AP has some important advantages. First, access to data will be more efficient for investors and researchers who conduct "large sample" studies if the data are contained in a searchable and downloadable database. Although I expect commercial data providers, such as Audit Analytics, will begin to collect and provide these data even if they are not readily downloadable, the price of a subscription would likely preclude access by many individual investors and researchers. Second, the audit firms have a comparative advantage in reporting the names of the engagement partners and their clients. As a result, the Form AP mechanism would allow for consistency, economies of scale in reporting and higher quality data. Third, it allows the audit firms to own this communication, rather than involve numerous other individuals.

The SEC's proposal to expand audit committee reporting discusses many important possible disclosures, and could lead to significant improvements in audit committee processes as well as investors' understanding of them. Including the audit partner's name in these disclosures may lower the costs to some investors who for example are studying a smaller number of companies' disclosures. Given the extent of disclosures discussed in the SEC's proposal, disclosing the name of the engagement partner should not add significant costs to this endeavor, in which case proceeding with disclosure by the audit committee as well as Form AP would make sense. However, I believe for most investors and researchers, the downloadable searchable file the PCAOB proposes will be more efficient to use.

Furthermore, Form AP could be more timely, both in its initiation date and relative to the audit report date. The complexity of the other disclosures contemplated for audit committees in the SEC's proposal could require more time for exposure and input by relevant parties. Form AP would be an earlier and more timely disclosure if disclosed either 10 or 30 days after the audit report, as is proposed, relative to the timing of most proxy statements. Providing the information on auditor identity after the filing of the annual report on Form 10-K would require investors and analysts to incorporate this additional information incrementally, rather than close to the time of the financial statement review. For this reason I believe 10 days or fewer is preferable, but perhaps there could be a transition period with a 30 day requirement moving to a shorter lag once participants have refined the relevant processes for reporting.

Regarding the question of reporting for Emerging Growth Company (EGC) clients, I do not believe there is a compelling reason to exempt these engagements. EGCs are potentially subject to the greatest variation in auditor quality and experience, and the cost of filing the information will not be directly borne by the EGC itself. Given the higher risk of these engagements, investors are likely to benefit substantially from greater transparency.

In summary, I find the arguments in the Supplemental Request for Comment compelling, and recommend the Proposal be approved and enacted. Disclosure of auditor identity on Form AP now meets the approval of many individuals and organizations, including some that initially opposed disclosure of engagement partners. I believe this is a testament to the inclusive problem-solving approach the PCAOB has taken, and to the efforts of the all the commenting parties who researched and articulated the potential consequences of each proposal. The result is a proposal that provides useful information to investors and others interested in improving audit quality in a cost-beneficial manner.

Thank you for the opportunity to submit my comments.

268 Bush Street
Suite 2931
San Francisco, CA 94105

August 31, 2015

Office of the Secretary
Public Company Accounting
Oversight Board
1666 K Street N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 029

My company, Muddy Waters, LLC, and I strongly urge the Board to adopt the proposed rule requiring auditors to file Form AP (the "AP Rule"). While the AP Rule represents the lowest level of the transparency proposals previously introduced by the Board, it will still have a positive effect by increasing the disclosure of currently hard to identify engagement partners and other auditors participating in an audit.

Muddy Waters has been deeply involved in exposing numerous stock frauds – particularly frauds from China. In my opinion, China is to stock fraud as Silicon Valley is to technology. Over the years, literally hundreds of Chinese frauds have listed in the U.S. Almost every single one of these frauds received at least one unqualified audit opinion from PCAOB registered firms – many of which were Big Four auditors. We strongly believe that the China fraud problem persists in the U.S. markets, but that the issuers have gotten better at avoiding detection. Because of the substantial difficulties of investigating and holding to account companies and persons in China, I believe Chinese companies listed in the U.S. are effectively beyond regulation. I similarly believe China's refusal to allow PCAOB inspections and the provision of working papers to the SEC also effectively places China-based auditors beyond regulation. One way to mitigate these depressing and deleterious realities is through greater transparency, including into the individuals most responsible for issuing audit opinions and exposing other participants in the audit.

Identifying the engagement partner chips away at the false sense of security that auditors' institutional brands give investors. Audits are after all carried out by people, who are fallible. Further, auditors are in a position that creates a conflict of interest, given that the issuers are the clients. Audit firms' opposition to earlier proposals to publicly identify audit partners in the audit reports is unfortunate. The enhanced disclosure earlier proposed by the Board, on which I have commented, would have pressured the firms to elevate their audit standards. I believe the firms would have met this challenge, resulting in a win-win scenario for the firms and investors. By the same token, opposing enhanced public identification of engagement partners is, in my view, opposing improving audit quality.

Muddy Waters and I join those in the investor community who wish to see greater transparency and accountability in our markets. We believe the AP Rule is a positive step in the right direction.

Sincerely,
Carson C. Block, Esq.

NASBA

National Association of State Boards of Accountancy

♦ 150 Fourth Avenue, North ♦ Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615.880-4201 ♦ Fax 615.880.4291 ♦ www.nasba.org ♦

August 25, 2015

Office of the Secretary
PCAOB
1666 K Street, NW
Washington DC 20006-2803 Via email: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter #029

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on PCAOB Rulemaking Docket Matter #029, *Supplemental Request for Comment: Rules to require disclosure of certain audit participants on a new PCAOB form ("Request for Comment").* NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories. In furtherance of that objective, we offer the following in response to the questions posed in the Request for Comment.

OVERALL COMMENTS

- We support the supplemental request to disclose the name of the engagement partner and information regarding certain other participants in the audit on a new PCAOB form, *Auditor Reporting of Certain Audit Participants* (Form AP).

- We believe that the alternative presented would result in achieving the overall objective of transparency regarding participants in the audit, while at the same time providing easy access to such information and alleviating many of the practical issues, including those related to the need to obtain consents, previously highlighted by us. As stated in our January 24, 2014 letter to the PCAOB, state regulators have not had a problem identifying the engagement partner or other firm participants in investigating a failed audit.

- We agree with the change in the re-proposal to exclude engaged specialists from the disclosure requirements. We believe regulators and other readers may find it difficult to use the information disclosed if it includes auditors and registered public accounting firms, as well as other parties "participating in the audit." This may raise questions regarding whether the parties disclosed are engaged in unlicensed practice in the state(s) in which the audit takes place. Limiting the disclosure to the auditor and registered public accounting firms will enhance regulators' ability to use the disclosure effectively when unlicensed practice questions arise.

- We believe that there are certain limited implementation and other issues that should be considered by the PCAOB that would provide clarity and assist with application of the proposed requirements. These implementation issues relate to:
  - Ability to use estimates in the calculations for determining which participants should be disclosed (form instructions now do not acknowledge ability to use estimates).
  - Filing deadline and ability to use batch reporting for Form AP (suggesting audit reports issued in a particular month be reported to the PCAOB by the end of the following month, e.g., all February issued audit reports would be provided in batch form to the PCAOB by March 30th). As the instructions are now written, it appears that the time period would be related to the filing date of each issuer, which could be cumbersome.
  - Effective date to use a phased approach, providing engagement partner names as of the proposed effective date, but providing information regarding other participants in the audit at a later date (e.g., for audit reports issued after December 31, 2016 or three months after approval by the SEC). This would allow time for a process and system to be put in place to gather the information related to other participants.

* * *

We appreciate the strong relationship between the PCAOB, NASBA and the State Boards of Accountancy, and we look forward to being able to continue to provide transparent, relevant financial information to the users of financial statements. Thank you for the opportunity to share our comments on PCAOB Rulemaking Docket Matter #029, *Supplemental Request For Comment: Rules to require disclosure of certain audit participants on a new PCAOB form*. Please contact us if you have questions or need clarification regarding our comments.

Sincerely,

Walter C. Davenport, CPA
NASBA Chair

Ken L. Bishop
NASBA President and CEO

NYS SOCIETY OF CPAs
NYSSCPA

August 31, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

By e-mail: comments@pcaobus.org

Re: Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form

(Release No. 2015-004, Docket Matter No. 029)

Dear Madame Secretary:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned release.

The NYSSCPA's SEC and Auditing Standards Committees deliberated the supplemental request for comment and prepared the attached comments. If you would like additional discussion with us, please contact Charles Abraham, Chair of the SEC Committee at (516) 620-8526, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,
N Y S S C P A
N Y S S C P A
Joseph M. Falbo, Jr.
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

SUPPLEMENTAL REQUEST FOR COMMENT: RULES TO REQUIRE DISCLOSURE OF CERTAIN AUDIT PARTICIPANTS ON A NEW PCAOB FORM

(RELEASE NO. 2015-004, DOCKET MATTER NO. 029)

August 31, 2015

Principal Drafters

From the SEC Committee:

Charles V. Abraham
Elliot L. Hendler
Mitchell J. Mertz
Victoria L. Pitkin

From the Auditing Standards Committee:

Howard B. Levy

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NYSSCPA Staff

Ernest J. Markezin

New York State Society of Certified Public Accountants

Comments on

Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form
(Release No. 2015-004, Docket Matter No. 029)

The New York State Society of Certified Public Accountants (NYSSCPA) is pleased to submit the following comments on Release No. 2015-004 "Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form" Docket Matter No. 029 (the Request) issued by the Public Company Accounting Oversight Board (the PCAOB or the Board). We understand the purpose of the Request and the previous proposals regarding this topic is to improve audit quality by disclosing certain key participants in the audit including the identity of the engagement partner, other independent public accounting firms that participated in the audit, and other non-accounting firm participants in the audit.

We opposed the identification of the engagement partner in our three previous letters to the Board regarding Docket Matter No. 029 as follows:

1. Letter dated February 4, 2014 (Comment Letter No. 31) in response to Release No. 2013-009 "Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit,"
2. Letter dated January 4, 2012 (Comment Letter No. 18) in response to Release No. 2011-007 "Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form," and
3. Letter dated September 10, 2009 (Comment Letter No. 6) in response to Release No. 2009-005 "Concept Release on Requiring the Engagement Partner to Sign the Audit Report."

The primary basis for our objections was and continues to be, twofold: (1) that the perceived value to be obtained by investors from the information provided by such disclosure is overestimated and has the potential to mislead the public by providing it with the misconception that the engagement partner is responsible for the audit rather than the public accounting firm, and (2), that a requirement to disclose the engagement partner's identity will not improve audit quality.

In the Request, the Board has proposed the use of a new PCAOB form, Form AP, *Auditor Reporting of Certain Audit Participants* (Form AP) and the future development of a searchable database for investors to obtain the information included on the Form AP. We are concerned that the development of such a database (that would allow users to search Forms AP "by engagement partner… and by company") would enable investors to access information that far exceeds that which would have been available had the Board's original proposal succeeded. As originally proposed, the identification of the engagement partner would have been limited to the audit report of a particular company, and the investor would not be able to assemble a list of all the engagements that partner participated in readily. As described in the Request, investors would be able to search the database by engagement partner and obtain a list of all public audit engagements for which that partner was responsible. We do not believe that this additional information would be useful to the investor in making investment decisions to an extent that would ever approach the economic cost of providing it.

The Request states that "over time, the PCAOB could enhance the search functionality as needed and could allow users to download the search results." While we acknowledge that the current proposal does not include disclosing anything more than the audit partner's name, we are concerned about the direction the Board may be taking with regard to enhancements. Presumably, such enhancements may include references to disciplinary actions taken by the Board, the Securities and Exchange Commission (the SEC), the American Institute of Certified Public Accountants (the AICPA), or a state society against the engagement partner or other public accounting firm that participated in the audit, but without regard to the nature of the disciplinary action or the applicability to the engagement under audit. Furthermore, it is probable that an audit committee would reject an audit partner who had been the subject of an earlier disciplinary action without having a detailed understanding of the nature of the disciplinary action.

Another enhancement might be the disclosure of a partner's participation in an audit of financial statements that were subsequently restated. Restatements result from varying causes, and many do not equate to what are commonly called "audit failures" (something that could be falsely inferred from such disclosures). The database would, presumably, not be able to distinguish between the different types of restatements and, therefore, provide potentially misleading information to the investor.

Because of the potential for providing misleading information, the misuse of that information, and the low value of providing information indefinitely, we believe that should this proposal succeed in any form, the information available to the investing public should be as static as the information that the Board originally wanted provided in the auditors' report. This is why we proposed in 2014 that the Board amend Form 2 or Form 3 to collect the information that it seeks. We believe that the requirement of a new Form AP provides no incremental benefit to the Board or the investing public and only adds administrative burden for public accounting firms. In addition, we believe that the time frame provided to file the Form AP is too short considering the level of detail required in Form AP (as described in Appendix 1 of the Request). For audit firms with numerous issuers with the same deadlines, it might be difficult to accumulate accurately all of the necessary information within the time frame, especially information related to other audit participants and the percentage of total hours that are attributable to the other audit participants.

We are in complete agreement with the Board's goal of enhancing audit quality; however, we reiterate our belief, as expressed in our letters referenced above, that the inclusion of the audit partner's identity is more likely to be misleading to the investing public than informative. Such information overstates the responsibilities of the engagement partner while obscuring the responsibility of the audit firm for the performance of a high quality audit. The extensive disclosures regarding other public accounting firms participating in the audit as proposed in the Request would tend to imply erroneously that the signing firm is not ultimately responsible for the performance of the audit particularly when reference is not made to the other firm(s). Further, providing such information on a form or in a database likely ensures that the information is provided without context or reference and, therefore, diminishes its value.

Pennsylvania Institute of Certified Public Accountants

August 31, 2015

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803
comments@pcaobus.org

Re: PCAOB Release No. 2015-004, Docket Matter No. 029: *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*

The Accounting and Auditing Procedures Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the proposed disclosure of certain audit participants in the auditor's report or on Form AP. The PICPA is a professional association of more than 22,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators.

The committee does not support the mandatory public disclosure of the name of the audit partner, either in the audit opinion or in the proposed Form AP. As stated in our enclosed March 17, 2014, response to PCAOB Release No. 2013-009, Docket Matter No. 029: *Proposed Amendments to Auditing Standards to Improve the Transparency of Audits*, the committee believes that the potential litigation and safety concerns, as well as anti-competitive impact, of the proposed disclosure outweigh any perceived investor benefits. Ultimately, the audit committee is responsible for the selection and oversight of an appropriately qualified auditor, and the committee supports greater audit committee education regarding ensuring a high quality audit. Finally, the committee supports removing the requirement to disclose nonaccounting firm participants in the audit as anti-competitive. If the PCAOB opts for audit partner disclosure, it should disclose other parties that play a role in the engagement, such as individuals performing regulatory reviews and inspections.

Thank you for the opportunity to provide our comments on the proposed engagement partner disclosures. Feel free to contact me at (717) 232-1230, or the PICPA staff liaison Allison Henry at (215) 972-6187, with any questions regarding our comments.

Sincerely,

Lisa A. Ritter

Lisa A. Ritter, CPA, CFE – Chair, PICPA Accounting and Auditing Procedures Committee

Pennsylvania Institute of Certified Public Accountants

March 17, 2014

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803
comments@pcaobus.org

Re: PCAOB Release No. 2013-009, Docket Matter No. 029: Proposed Amendments to Auditing Standards to Improve the Transparency of Audits

The Accounting and Auditing Procedures Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the Proposed Amendments to Auditing Standards. The PICPA is a professional association of more than 20,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators.

1. Proposed requirement to name the engagement partner
   a. No improvement in audit quality – The committee does not believe that requiring the partner to sign the audit opinion would improve audit quality. Firms design their audit approaches to comply with the existing standards. Therefore, it is unlikely that the work currently performed in connection with the audit will change in the absence of specific changes to the audit standards. Instead, the committee believes that users may misinterpret the role of the signing partner, not considering that the audit is performed within the context of a firm's system of quality control.

   b. Potentially misleading – The signature of the partner may also mislead users to think that the signing partner is responsible for the financial statement results, or somehow personally certifies the information being provided. This misunderstanding may also lead users to seek information directly from the signing partner, posing potential ethics compliance related threats (e.g., AICPA Code of Professional Conduct ET100 - 1, *Conceptual Framework for AICPA Independence Standards*, advocacy threat, and ET 301, *Confidential Client Information*). Ultimately, the committee believes that the proposed required signature could lead to increased personal liability and potential security concerns for the signing partner.

   c. Potential increase in legal liability for the signing partner – While personal signatures and names of the engagement partners in the audit report are required in certain jurisdictions, the legal environments in those jurisdictions may not be the same as in the U.S. Some jurisdictions, especially the U.S., are more litigious and could expose the signing partner and the partner's family to unwarranted and costly litigation, whether any fault lies with the partner or not. The committee believes that this will result in greater legal liability for the signing partners, and translate into recruitment challenges for firms. Higher audit fees are also likely.

d. Physical safety – The committee is also concerned with the safety of the signing partners and their families, and is mindful of the potential for violent activism or an irrational reaction from a shareholder who has lost money. As an example, the committee recalls the 2003 London animal rights activist incident in which a city block in front of the Deloitte building was closed and protests took place outside the homes of the auditors. [See the following link for a column in *The Guardian*, "Auditors under fire over animal right." http://www.theguardian.com/uk/2003/feb/20/businessofresearch.research] The committee does not believe individual partners should be exposed to such security threats.

2. Anti-competitiveness impact of databases grading partners – The committee believes that the creation of databases that grade partners could result in a permanent structural bias against smaller, less-known firms. Audit committees may be reluctant to engage firms or partners that are not already well-established, known within the industry, and highly graded by the industry database of audit partners discussed in the proposal. The resulting impact is contrary to public policy efforts to reduce the concentration of audit firms auditing public companies.

3. Disclosure about certain other participants in the audit – The committee does not support the disclosure of the specific names and locations of the other auditors participating in the audit. The committee believes that the financial statement users may be misled about the role of the other auditors versus the primary auditor. In lieu of specifically naming the participating auditors, and given the overall responsibility of the signing audit firm, the committee supports a generic disclosure about the use of other independent auditors. Additional concerns are enumerated below:
   a. Harm to smaller firms participating on the audit – The committee is concerned that adding a requirement to disclose the other participants in the audit would have a detrimental effect on the use of other audit firms, which in many cases are smaller firms. Specifically, the committee is concerned users may raise questions about the overall quality of the audit if the other firm being utilized is smaller, and possibly not as well-known or highly-graded in the proposed databases. The committee believes that firms will be reluctant to rely on other auditors and will move to bring that work in-house rather than having to disclose that they used other auditors. The end result will be to reduce the work for smaller firms. As the firm signing the audit opinion is required to take overall responsibility for the work performed by other auditors, such work must be performed to the standards required by the signing firm. Therefore, it is unclear what is being accomplished by this proposed requirement.

   b. Legal liability for participating firms – The disclosure of the other audit firm participating on the audit could also increase the legal liability of the participating firm. Financial statement users may seek to hold them accountable for a greater portion of the audit work than they actually performed. These firms may be reluctant to accept this exposure, resulting in less firms being involved in the market.

c. 5% threshold for disclosure – While the committee disagrees with any proposed requirement to disclose the other firms that participated on the audit, the committee believes that the proposed 5% threshold is onerous. If the board requires this disclosure, the committee suggests a significant increase in the threshold to 30% or more.

4. Employment versus affiliate relationship – Page 16 of Release No. 2013-009 includes the following:

> "In the 2011 Release, the Board indicated that disclosure of any offshored work would not be required to the extent that the offshored work is performed by another office of the same accounting firm, even though that office may be located in a country different from the country where the firm is headquartered. The staff of such office is employed by the accounting firm issuing the auditor's report."

The committee is not convinced that the employment relationship in foreign countries referred to in this exemption is sufficiently different from affiliate relationships utilized by international networks. It is unclear, for example, whether personnel employed at an affiliate could be temporarily employed by the accounting firm issuing the auditor's report in order to get around the disclosure requirements. The committee requests that the related requirements be better clarified to remove inconsistencies.

5. Appendix K reviewer – Release No. 2013-009 page 15 also indicates that the Appendix K reviewer would be exempt from the disclosure requirements. Given the importance of this work to the overall system of quality control over engagement performance, it is unclear why this work would be treated differently than the rest of the audit engagement.

We appreciate your consideration of our comments, and we are available to discuss any of these with you at your convenience.

Sincerely,

Allison M. Henry, CPA
PICPA – Vice President – Professional & Technical Standards
Staff Liaison, PICPA Accounting and Auditing Procedures Committee

P B T K
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

August 14, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W., Washington, D.C. 20006-2803
Transmitted by e-mail to: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 029, Release No. 2015-004, "Supplemental Request to Require Disclosure of Certain Audit Participants on a New PCAOB Form"

Dear Ms. Brown and Members of the Board:

Once again, we are taking the opportunity to offer our comments in response to the latest proposal by the Public Company Accounting Oversight Board (the PCAOB or the Board) in the series ofreleases designated collectively as Rulemaking Docket Matter No. 029, *i.e.*, Release No. 2015-004, dated June 30, 2015, this time titled, "Supplemental Request to Require Disclosure of Certain Audit Participants on a New PCAOB Form." Although the proposal includes potential requirements for disclosure of other audit participants, this response is focused almost solely on disclosing the identity of the audit engagement partner.

We note with deep concern that on three previous occasions, beginning over six years ago in 2009, the Board has presented for public comment the notion of disclosing the identity of the audit engagement partner, and that it persists now, for a fourth time, despite the almost universal objections of members of the audit community. These objections are heavily grounded principally in the conspicuous absence of any credible evidence as to any measurable benefit to investors or other stakeholders of these disclosures, as claimed, either in terms of their utility for informing better investment decisions or in providing incentives to improve audit performance and quality.

We also objected to including such disclosures in audit reports because of their negligible value particularly when viewed in relation to other information required to be in an audit report. We believe it would merely add clutter, overstate the appearance of significance, distract from the important information, and reduce the probability that the report would even be read. In addition, disclosure of the identity of the audit engagement partner would tend to mislead readers to an overstated impression of the partner's level of responsibility *vis a vis* that of the reporting firm.[1]

Apparently, however, the investment community has loudly asserted its belief in such benefits (which, quite frankly, we see as "imaginary") and, accordingly, repeatedly voiced its demand for these disclosures, and we are unable to explain why the PCAOB appears to have assumed the burden of supporting the claims of these investor groups.

In contrast, naming other audit firms participating in the audit would tend to give a misleading impression that confused readers by effectively understating the full responsibility taken by an issuing firm that does not make reference.

In its earlier letters in response to Release 2009-005 (Comment Letter No. 15, dated September 11, 2009) and Release 2009-005 (Comment Letter No. 8, dated November 30, 2011), this firm presented its objections in significant detail to the Board's disclosure proposals. (In addition, the undersigned was one of the principal drafters of the response to Release 2013-009 of the New York State Society of CPAs (Comment Letter No. 15, dated February 4, 2014), which expressed similar views (as did many other audit firms and CPA organizations). Because of the extent to which our views are detailed in those earlier letters to which we refer you, in the interests of avoiding undue redundancy, this letter is considerably briefer.

As noted in the fourth preceding paragraph, for reasons set forth in considerable detail in our earlier letters, we find that despite its extensive research efforts, the Board has been unable, even in this fourth attempt, to offer any persuasive evidence to support the beliefs it matter-of-factly asserts, without qualification, that public disclosure of the identity and other information about the audit engagement would both (1) help investors make better informed investment decisions, and (2) provide incremental incentives for audit partners to do better quality work. Moreover, we find the Board's arguments that a separate reporting form *(i.e.,* proposed Form AP) would make the required disclosures available more timely or to be otherwise more readily accessible by those who would seek such information, largely contrived, weak and unconvincing. In our opinion, reporting the proposed information annually on Form 2 and updating when necessary on Form 3, would be just as timely and easily accessible as the proposed Form AP and be far less of an unwarranted administrative burden to reporting firms. Additionally, we find the argument that Forms 2 and 3 are primarily designed to serve a purpose other than public disclosure *(i.e.,* the Board's oversight activities) to be entirely irrelevant.

Nevertheless, we refer to the letter dated July 17, 2015, (Comment Letter No. 3 to the current Release) from the esteemed Dennis R. Beresford, former FASB Chairman, now of the University of Georgia, who noted that page 2 of the Request states that, "The Board continues to consider whether to mandate auditor disclosure regarding certain audit participants and, if so, whether disclosure should be made in the auditor's report or on Form AP." "Thus," Beresford observes, "notwithstanding the 'continues to consider' wording ..., the Request reads as though the Board has decided that these disclosures will be mandated and the only question is whether they will be in the auditor's report or the new Form AP." Therefore, it appears, that the Board is already irrevocably committed to a foregone conclusion imposing these disclosure requirements either in the audit report or in proposed Form AP and has ruled out the inherently superior compromise alternative (which we, among others, suggested reluctantly) ofreporting such information in an expanded version of the extant PCAOB Forms 2 and 3. We see this as unfortunate, if so, and hope it is not.

Accordingly, we remain firmly opposed to the proposed public disclosure of the identity of the audit engagement partner in any form based on its clear improbability of achieving any imaginary benefit such as is claimed. We are particularly opposed to the Board requiring such disclosure in the audit report, or even offering the option of voluntarily including it there either in addition to or instead of a PCAOB reporting form. We believe that option should be expressly prohibited primarily for the reasons reiterated at the beginning of this paragraph and because it would likely distract from more important information in an audit report and potentially be misleading. Nevertheless, we find the most palatable and practical way to yield to the unreasonable demands for such information, if necessary, would be to use the Form 2/Form3 reporting alternative.

In the Release, the PCAOB maintains that a significant reason it is considering Form AP as an alternative to disclosure of partners' names in audit reports is the expression of concerns by many respondents of inviting "additional private" liability if disclosed in audit reports. As much as we object to these public disclosures, we do not share these liability concerns with others. We believe that litigation risk and the attendant exposure to liability is inherently the same without regard to the placement of such disclosure, if any, whenever investors are damaged for reasons they can attribute to financial statement misstatements, and that in any litigation, the discovery process will readily result in the identification of all responsible parties. It is clearly not an issue.

Although not part of the current proposal for disclosure in an audit report or in Form AP, we further object to the rather subtle suggestion in Appendix 2, part A, of the Release (pages A2-4 to A2-6) that over time, additional disclosures might be required that would enable the private development of databases providing investors with ready access to other virtually useless, at best, and more likely misleading and damaging, information about individual audit partners. We strongly recommend that the PCAOB should permanently abandon any designs or intentions it might have to pursue these avenues and, consistent with its primary Congressional mandate for the "establishment and enforcement of appropriate auditing standards,"[2] shift its focus from promoting more disclosure to investors (which is the SEC's job) to providing standards for "actually conducting audits," as suggested recently by the SEC's Chief Accountant, James Schnurr,[3] and on its oversight *(i.e.,* inspection) activities.

To help the PCAOB's staff to organize our views for presentation to the Board, we are including our brief responses to selected questions presented in the Release on the following pages.

Thank you for this opportunity to comment on this proposal. Once again, we hope the Board finds our comments useful in its deliberations on this important matter. Please contact the undersigned at hlevy@pbtk .com or 702/384-1 120 if there are any questions about these comments.

Very truly yours,
Piercy Bowler Taylor & Kern,
Certified Public Accountants

Howard B. Levy, Principal
and Director, Technical Services

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2 Section I O l (a) of the Sarbanes-Oxley Act of 2002.

3 PCAOB's budget meeting in February 4, 2015.

Answers to Selected Questions Presented in the Release

I. Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?

As explained in greater detail throughout the body of our letter and more so in our earlier letters on Docket 029, referenced therein, in our view, the potential benefits of these disclosures in terms of useful transparency and an increased sense of accountability are equally negligible no matter where they are made.

3. Would disclosure on Form AP mitigate commenters' concerns about liability? Are there potential unintended consequences, including liability- related consequences under federal or state law, of the Form AP approach? If so, what are the consequences? How might the Board address them?

As also explained in the body of our letter, beginning at the bottom of page 2, we do not see increased exposure to liabil ity as an issue in this matter.

4. In addition to the required filing of the Farm·AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report? If so, what are those considerations or consequences? How might the Board address them?

We explained also near the bottom of page 2 of our letter that we believe that voluntary disclosure in the audit report should be expressly prohibited primarily because of our views of its lack of utility or positive effect on partners' sense of accountability and audit quality and because it would clutter up the report and likely distract from more important information and potentially be misleading.

6. Is 30 calendar days after the filing of the auditor's report (and I 0 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP? Should the deadline be shorter or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (e.g., 60 days) in the first year of implementation? Should the JO-day deadline apply whenever the auditor's report is included in a Securities Act registration statement, not just in the case of an IPO?

As we have stated repeatedly, we believe if such disclosure were to be required, it would best be made annually on Form 2 and updated within 30 days as necessary on Form 3. We see no reason for any independent deadline tied to the audit report date and see 30 days from a reportable change more than adequate particularly in light of our opinion as to the lack of value in the information.

7. *This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach*

Answers to Selected Questions Presented in the Release (continued)

8. described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V? If the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficiently clear? Why or why not? Is the definition of control in Section V appropriate? Why or why not?

We agree with the Board's withdrawal of its earlier proposal for disclosure of nonaccounting firm participants in the audit because we see that as additional information of no value at best and a means of diluting the responsibility of the reporting firm at worst.

9. Does Form AP pose any specific issues for EGCs? Would disclosure of the required information on Form AP promote efficiency, competition, and capital formation if applied to EGCs? If so, how? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard? Would creating an exemption for audits of EGCs benefit or harm EGCs or their investors? Why?

Our views about Form AP have nothing to do with the category of issuer and, therefore are the same for EGCs as for others.

10. Does Form AP pose any specific issues for brokers, dealers, or other entities? If so, what are those issues? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard?

Our views about Form AP are the same for brokers, dealers, or other entities as for issuers.

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

August 31, 2015

RE: PCAOB Rulemaking Docket Matter No. 029, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*

Dear Madame Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") June 30, 2015 *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (the "Supplemental Request"). The Supplemental Request sets forth an alternative to the PCAOB's prior proposal to require auditors to disclose the name of the engagement partner and information about certain other audit participants in the auditor's report (the "Prior Proposal").[1] As an alternative to the Prior Proposal, the Board is considering requiring the information to be disclosed in a new PCAOB form, rather than the auditor's report (the "Alternative Proposal"). The Alternative Proposal also modifies the content of the required information in certain respects.

As the Board notes in the Supplemental Request, the question of engagement partner identification has been under consideration since 2009. In our comments on the Board's previous releases in this Docket, we supported the Board's general objective of promoting transparency and providing users of financial statements with appropriate information to enable them to assess the qualifications and capabilities of the registered public accounting firm that attests to an issuer's financial statements. We also expressed support for transparency about the engagement partner and other audit participants if the benefits of providing that information were not outweighed by other considerations. We continue to believe including the names of the engagement partner and audit participants in the audit report itself—as opposed to alternative disclosure methods—creates practical challenges related to obtaining consents and creates risks of liability that substantially outweigh the benefits of including the information in the audit report. We recommended the Board consider alternative transparency mechanisms, specifically (i) use of a separate PCAOB filing instead of the auditor's report to report information about the engagement partner and other audit participants or (ii) recommending to the SEC that it consider including such disclosures in public filings that would not be incorporated by reference into any Securities Act registration statement.

The Alternative Proposal implements the first alternative suggested above in many respects. It would require that disclosures regarding the engagement partner and other accounting firms participating in the audit be made on new PCAOB Form AP. The Alternative Proposal would give auditors the option of including this information in the auditor's report. The Form AP would be required to be filed within thirty days after the auditor's report is first included in an SEC filing, except for auditor's reports filed in

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[1] See *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*, PCAOB Release No. 2013-009 (Dec. 4, 2013).

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connection with IPOs, for which the time period would be ten days. The Alternative Proposal does not include disclosures regarding audit participants that are not accounting firms, but the Board has asked for feedback whether these participants should be included in certain circumstances.

We support the Alternative Proposal, subject to some suggestions below.[2] We believe the Alternative Proposal addresses in large measure the concerns we expressed regarding the Prior Proposal. We appreciate the Board's acknowledgement of the litigation risks created by a requirement to include information about the engagement partner and other audit participants in the auditor's report, as well as the practical challenges that would result from the need to obtain consents from the named persons under section 7 of the Securities Act. We believe that requiring disclosure of the information on proposed Form AP, rather than in the auditor's report, eliminates the concerns about potential liability under section 11 of the Securities Act. It also obviates the need to obtain consents under section 7 of the Securities Act. We do not believe that identifying engagement partners or other audit participants on Form AP will significantly affect the possibility of a claim against these persons under section 10(b) of the Securities Exchange Act.

We also believe that reporting on Form AP will provide an accessible, cost-effective mechanism for interested parties to obtain information about engagement partners and other accounting firms participating in the audit. The Board indicates that the data reported on Form AP would be accessible through a searchable data base on the Board's website through which the information can be searched by company or engagement partner. We believe with appropriate descriptions and instructions on the website, such an approach would be a reasonable approach, compared to deriving information from multiple SEC reports. Although new processes will have to be developed to gather the relevant information to determine it is accurate and make sure it is filed on a timely basis, we believe including this information on Form AP will be less costly than including the information in the auditor's report. Form AP eliminates the practical challenges and potential costs involved in obtaining consents, as well as the potential liability under section 11 of the Securities Act.

Against this backdrop, we offer the following suggestions with respect to specific aspects of the Alternative Proposal:

- *Timing*. We recommend the deadline for filing Form AP in the non-IPO context be changed to sixty days after issuance of the auditor's report. Similar to other PCAOB forms, a process will need to be developed centrally within the firm to file the individual engagement Form APs to the PCAOB website.[3] A process will also be needed at the end of the audit to estimate group audit hours, including group audit hours of foreign firms, as component teams typically do not accumulate group audit hours separately from statutory audit hours. Allowing time to estimate

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[2] In our comment letter dated February 4, 2014, we recommended that any disclosure of the engagement partner should be coupled with identification of a member or members of firm leadership. The purpose of this requirement would be to alleviate any misimpressions that the audit report is the product of the engagement partner, rather than the firm. We also recommended that the Board implement steps to assist users in putting the reported information in appropriate context and not drawing unwarranted conclusions about the engagement partner or the audit he or she oversees. We continue to believe that these measures would provide valuable amplification of the role of the engagement partner.

[3] Page 9 of the Supplemental Request states, "firms would file Form AP through the PCAOB's existing web-based Registration, Annual, and Special Reporting system using the username and password they were issued in connection with the registration process." As the process for filing these forms is maintained centrally, including protection of username and password, a centralized process will similarly have to be developed for filing Form AP.

hours after the date of the audit report will allow auditors to focus on this item after the audit is completed instead of during the critical completion stage of the audit. Also, accounting firms have up to forty-five days to complete archiving of work papers related to the audit; therefore, some time may continue to be incurred past the thirty day deadline included in the Alternative Proposal. As a result, we think sixty days is a reasonable period. Alternatively, we suggest the PCAOB consider adopting a quarterly filing deadline in which the information from multiple audit engagements could be included on one form, assuming that this would allow for comparable search capabilities. This approach could reduce the administrative burden of the firms' filing and the PCAOB receiving individual forms for thousands of engagements in a short period of time (particularly around the time Form 10-Ks are filed for calendar-year companies). It will also allow firms to obtain more accurate information about the hours to be used in the percentage calculations for other audit participants. We recognize this approach might entail a delay in when the information becomes public. However, a quarterly filing could also incorporate any known change to the engagement partner for the upcoming year. This would allow users of the information to know ahead of time who will be the partner in the upcoming year.

- *Mutual Funds*. For certain mutual fund families, the lead engagement partner may be the same for a number of funds within the family. It appears that the Alternative Proposal would require a separate form to be filed for each fund. In order to reduce the administrative burden and increase the usability of the information, we recommend the Board consider permitting mutual fund families to include the information regarding the engagement partner for multiple funds within a family to be disclosed on one form for each lead engagement partner. It is our experience that the audit of mutual fund families generally do not include participation of other accounting firms and the lead engagement partner is the same individual. In some cases, one mutual fund family may engage two different accounting firms to audit funds within the same family, and each firm may separately audit funds that exist within the same trust. One form for each lead engagement partner per firm would make it simpler for users of the information to identify the information they seek, because the information would be the same for multiple funds. Under this approach a user would not have to consider whether a number of different individual forms contain the same information or not.

- *Reissuance*. We think the Board should clarify that not all "reissuances" of audit reports will trigger a filing. Reissuances often occur due to filing multiple registration statements or amendments,[4] but in most instances there would not be any corresponding changes to the information about engagement partners or other audit participants disclosed in the Form AP. However, it is unclear whether a new form is required for all reissuances or just when the auditor's report is dual dated. For example, the Supplemental Request (page 9) indicates that a new filing is required if the auditor's report is reissued and dual dated. However, the Supplement Request's discussion of the effective date (page 16) mentions reissuance but does not discuss dual dating. In any event, we do not believe a new form should have to be filed for every reissuance, even when the audit report is dual dated. We believe that in a reissuance situation a new form should only be required when there is a change in the information that is contained in the form, such as a new engagement partner or a change in the extent of participation of the other audit participants. We believe this will alleviate the need for users to compare Form APs filed for the same audit period to

4 See AU 560.08, which indicates that financial statements are considered reissued when included in reports filed with the SEC or other regulatory agencies.

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see if a change in the information has been made, because in most situations there will not be a change.

- *Optional Inclusion in Auditor's Report*. We recommend that any final rules omit the option for the auditor to include the information about the engagement partner and other accounting firm participants in the auditor's report. As the Board is aware, the SEC's recent concept release on audit committee disclosures has requested comment on possible disclosures regarding members of the engagement team and other participants in the audit.[5] We suggest the Board defer to the SEC in this area to consider whether the information should be included in the SEC filings in addition to Form AP. As the SEC concept release is already contemplating this information be included as part of expanded audit committee disclosures, for the PCAOB to include options to place the information in other places in an SEC filing most likely is not beneficial to users. Including the information in the auditor's report, whether it is required or optional, will still trigger the same litigation concerns and practical challenges that were problematic from the Prior Proposal.

- *Non-accounting Firm Participants*. The Alternative Proposal omits requirements for disclosures regarding audit participants that are not accounting firms. We support this aspect of the Alternative Proposal. The Board leaves open the possibility of adopting a "more tailored" approach that would exclude separate disclosure if the non-accounting firm participants were controlled by or under common control with the accounting firm issuing the auditor's report. The example of the audit participants that are not accounting firms are "offshore service centers," consultants, and entities that provide accounting firms with leased employees. As the work of these participants are under the direction and control of the engagement team and/or comprise part of the firm's quality control standards, we do not believe that whether a firm controls or the entity is under common control with the accounting firm should dictate disclosure. Such a disclosure implies the work is not under the direction and supervision of the engagement team or covered by the audit firm's quality control standards; therefore, we believe these disclosures might be misunderstood. Rather than trying to define a category of non-accounting firms that would be covered, we support the omission of audit participants that are not accounting firms, rather than the tailored approach discussed in the Supplemental Request. Also, we believe the hours of the non-accounting firm participants should be included as part of the total hours of the accounting firm that has the review and supervision responsibilities of the non-accounting firm participants when determining total audit hours and extent of its participation.

- *Effective Date*. In order to provide firms sufficient time to develop processes to implement the filing requirements of any final rule, we believe the effective date should be no less than one year after the date of the Board's release adopting the rule. In considering the appropriate effective date, the Board may want to avoid having the effective date based upon a calendar financial statement year-end. This will allow the processes as described above to be developed and tested during an off-cycle.

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[5] Release No. 33-9862, *Possible Revisions to Audit Committee Disclosures*, at 42-48 (July 1, 2015).

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact Michael J. Gallagher (646-471-6331) or Marc Panucci (973-236-4885) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

From: John R. Roberts
To: Comments
Subject: PCAOB Relaease No. 2015-004 and PCAOB Rulemaking Docket Matter No. 029
Date: Friday, August 28, 2015 6:25:50 PM

Regarding: Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form

I am responding to this Request for Comment as an interested party who has served on audit committees and as chairperson of three NYSE audit committees over a period of at least ten years in each instance. Each company has had a different one of the Big Four firms as auditor and in one case changed from one firm to another.

In my experience the firms that have been hired have been based primarily on the qualifications of the entire firm and not of any particular partner. This is more true today with the five year lead partner rotation requirement. Secondarily, our committees have looked closely at the qualifications of the lead partner recommended (SEC experience, industry experience, multi location experience, maturity, communication ability, etc.). While the lead partner must have the requisite knowledge and experience and we look to that person as the representative of the firm, we mainly look to (and hold responsible) the entire firm for the performance of a quality audit. Stated differently, if we did not feel we were receiving a quality audit we would change the entire firm and not just the lead partner.

The responsibility for hiring or terminating a particular auditing firm rests entirely with the Audit Committee and the Board of Directors even though advisory votes are often sought from the shareholders. In my opinion the disclosure of the engagement partner and other participants in the audit adds some cost (the effort to file and update) but adds little or no value to the quality of financial information being reported or to the needs of users of financial information. Further having such a requirement would seem to imply the Audit Committees and Boards of Directors are incapable of making reasonable, sound judgments about which firm to engage based on many factors of which the engagement partner is only one.

If the PCAOB wanted to assist audit committees in their decision making regarding auditors it could improve the timeliness and transparency of the results of its examinations of firms. The subject proposal adds no value in this regard.

In summary, I do not recommend its adoption for the reasons stated.

Respectfully submitted,

John R. Roberts
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(314) 991-0349

SanDisk

SanDisk Corporation
951 SanDisk Drive
Milpitas, CA 95035-7932
Phone: 408-801-1000
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August 27, 2015

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 029

Dear Board Members:

SanDisk Corporation appreciates the opportunity to respond to the Public Company Accounting Oversight Board ("PCAOB") Rulemaking Docket Matter No. 029 – Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form.

SanDisk, a global technology company, is a global leader in flash memory storage solutions. Our products are used in a variety of large markets, and we distribute our products globally through retail and commercial channels. We are an S&P 500 company (NASDAQ:SNDK) and Fortune 500 company, with more than half our product sales outside the United States.

We support the continued efforts of the PCAOB to enhance the quality of public company auditing. However, we do not believe that disclosure of the engagement partner provides meaningful information to shareholders, nor do we believe that disclosure of participation by other public accounting firms on an audit is beneficial to the public and private sectors. Overall, we believe disclosing the engagement partner name or affiliate auditing firms involved publicly on the PCAOB website does not provide a benefit to shareholders. We do not oppose the collection of this data by the PCAOB for private use, should the information be useful in risk analysis and audit firm inspections.

Disclosure of the engagement partner's name does not provide useful information to shareholders.

Under the proposed rule, the name of the engagement partner would be disclosed on a new form filed with the PCAOB and be made publicly searchable on the PCAOB website. We believe disclosing the name of the engagement partner alone does not provide incremental benefits to public investors. An audit is a team effort which requires the deployment of various professionals in addition to an engagement partner. For certain audits of larger companies, involvement of multiple partners might be necessary. For instance, an audit of a conglomerate may include multiple engagement partners or even the involvement of subject matter expert partners. Furthermore, prior to the issuance of an audit report, there are also incremental internal quality review procedures that the engagement partner is subject to. We believe the disclosure of the name of the engagement partner alone without providing appropriate context as to the role of the lead engagement partner and other partners involved would not provide better information to the public to make well-informed decisions about their investments.

Engagement partners are already held accountable for their actions through reviews held by the audit firm they represent, PCAOB audits, and their state board of accountancy. We believe that these bodies are better qualified to judge an audit partners quality of work and credentials as they can obtain access to the engagement partners' detailed work and all necessary facts required to make such a judgement. Thus the checks and balances already in place provide a more effective approach to ensuring engagement partner accountability.

Furthermore, should the engagement partners name be made publicly available on the PCAOB website, the liability taken on by the engagement partner greatly increases. This is illustrated by the reality that regardless of any involvement in legal claims made against an audit client, plaintiff lawyers can use this proposed public disclosure to further bring suit against engagement partners. We believe that unnecessary increases in personal liability, such as this, are damaging to the field of public accounting, as it decreases the incentive for bright qualified individuals to choose such a field at a time when competition for valuable employees continues to increase in the corporate world.

Participation by other affiliated and non-affiliated public accounting firms cannot be directly correlated to audit risk.

We believe that disclosure of both affiliated and non-affiliated audit firms that individually performed work that represents 5% or more of total audit hours is not useful information for shareholders. This disclosure implies to shareholders that there is an increase in audit risk associated with the use of multiple audit firms, which is largely not the case.

It is to a global company's advantage to utilize auditors affiliated with the accounting firm issuing the auditor's report as a means to reduce the financial burden of an audit. Many audits are multi-location within the US and worldwide, and the use of affiliated auditors generate benefits through reduced travel, local language ability, flexibility in audit timing and inter-coordination with local statutory audits. It is unrealistic for multi-national companies to use only the US based audit firm given the breadth of the work. Reporting the locations and or names of the affiliates only provides where the audit firm is located, but not where or how the underlying risk of the audit is. For example, many US companies employ shared service locations that may be decoupled from the main operations of the entity and understanding of where the shared service location is located, that used an affiliate audit firm, may actually confuse interested parties into thinking operational activities are also in that location. Moreover, in our experience the audit work performed by other affiliated and non-affiliated audit firms is subject to the same detailed level of review as is all work performed at headquarters. Consequently, we believe there to be no increase in audit risk associated with the use of other affiliated and non-affiliated audit firms and thus believe the disclosure of such to be of minimal value in providing shareholders comfort in the audit process.

SanDisk

Collection for PCAOB Private Use

We believe that should the PCAOB find the name of the audit engagement partner and the use of other affiliated and non-affiliated public accounting firms useful in the private risk assessment, that it should be collected. The collection of such data however should not be made public for the aforementioned reasons. Should the PCAOB decide to collect this data we believe that it should do so from all public companies including emerging growth companies as we believe the risks for audits are present in all sized companies and audit firms and exclusion would only lessen the value of the initiative.

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We thank you for providing us with the opportunity to provide our comments on the concept release on disclosures about certain audit participants and you can reach us directly at the phone numbers below to discuss these issues further.

Sincerely,

/s/ Donald F. Robertson, Jr.
Donald F. Robertson, Jr.
Vice President,
Chief Accounting Officer
SanDisk Corporation
(408) 801-1856

/s/ Catherine P. Lego
Catherine P. Lego
Chairman,
Audit Committee of the Board of Directors
SanDisk Corporation
(650) 851-2785

CC: Judy Bruner, Executive Vice President, Administration and Chief Financial Officer

Sinclair Capital LLC
924 West End Avenue – T4
New York, N.Y. 10025

August 27, 2015

Ms. Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

Re: Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form (PCAOB Rulemaking Docket Matter No. 29)

Dear Madame Secretary:

I appreciate the opportunity to comment on the PCAOB's supplemental request regarding rulemaking docket matter number 29. I comment as an investor who has directly invested or overseen investments of more than $100 billion in institutional investments over the course of my career. A precis of my investment credentials was included in my previous comment letter on this same docket matter on March 14, 2014. As a brief update, since that time, I have been appointed a member of the Standing Advisory Group of the PCAOB. However, as I am sure you know, these comments are my personal opinions, and do not necessarily represent the opinion of the SAG or any of its members or of the PCAOB or any of its Commissioners or Staff.

As noted on my previous comment letter, I support the disclosure of the name of the engagement partner in the audit report and detailed the reasons for my support my submission of March 14, 2014. I continue to think it the preferred proposal. However, I understand the reasons the PCAOB is now considering disclosure of the name of the engagement partner on a separate Form AP, and I agree that it is a viable compromise that would achieve many of the desired salutary results of the original proposal.

The Supplemental Request specifically asked "Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?"

Assuming various conditions as to timing and functionality, which I detail below, I believe the marketplace will soon adapt to the existence of a Form AP. In addition to the Form AP disclosures being directly searchable on the PCAOB website by investors and others, I believe one or multiple information providers will develop a user-friendly interface that incorporates some level of analytics to Form AP searches, much as several information providers have done with the information resident on the SEC's EDGAR system.

As noted, however, that market adaptation to deliver the desired benefits of disclosure via a Form AP is dependent upon a number of conditions, some of which are the subject of inquiry in the Supplemental Request. The Supplemental Requests asks if filing Form AP within 30 days of the filing of the auditor's report (10 days for an IPO) would be appropriate, tough there is no rationale given for the 30 day lag, or for the 10 day lag from an IPO. Given that the name of the engagement partner is known to all internal participants in the audit process far in advance of the filing of the auditor report, ideally it should be made available contemporaneously with the auditor report. However, I acknowledge that there may be coordination issues that prevent such contemporaneous filing. Therefore, the question, should be what is the minimum time delay necessary to resolve such potential coordination issues? That, of course, is a matter of judgment, but I would suggest five business days. In any event, if a Form AP can be filed in 10 days for an IPO, which generally is a more intensive process with more moving pieces and more outside entities needing coordination than is an audit of an ongoing filer, then I see no reason Form AP cannot be filed in the same or less time for an audit of an ongoing filer.

The second issue the Supplemental Request mention is: What are the appropriate search criteria and functionality for Form AP? This is a key question, as robust functionality will facilitate information providers disseminating the basic information in the first instance, and adding appropriate analysis thereafter. Therefore, Form AP ought to be standardized so as to be machine readable and searchable, downloadable, and easy to navigate. As a proxy for ease of navigation, I would support the standard put forth by the Council of Institutional Investors in its July 30, 2015 comment letter, suggesting that it take no more than three steps for a user to navigate from the PCAOB's home page to the search results for Form AP.

Again, I thank you very much for the opportunity to comment.

Sincerely,

Jon Lukomnik
Managing Partner

Texas Society of
Certified Public Accountants

August 27, 2015

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 029

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters. The views expressed herein are written on behalf of the PSC, which has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

The PSC PCAOB Subcommittee deliberated over the 12 questions posed in the above referenced ED entitled *Disclosures of the Engagement Partner and Other Participants in the Audit.* Below is our response to each question posed in the ED.

1. Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?

Disclosure on Form AP would achieve the same potential benefits of transparency and increased sense of accountability as disclosure in the auditor's report. Reporting the information in Form AP rather than the auditor's report would make the information more accessible to investors and users. It would be more searchable and enable third parties to provide the information to others in various forms that the market could use to disseminate various information about individual auditors and firms including, but not limited to, various areas related to audit quality indicators. While this information is available today for firms, the information would then be developed regarding individual audit partners.

2. Are there special considerations relating to the Form AP approach that have not been addressed in this supplemental request for comment? If so, what are the considerations? How might the Board address them? What are the costs of Form AP compared to the costs of disclosure in the auditor's report?

We do not believe there are any other special considerations relating to the Form AP that have not been addressed in this supplemental request for comment. We are unable to guestimate the costs of Form AP compared to the costs of disclosure in the auditor's report. However, while we would anticipate an additional amount of time related to the Form AP approach, we prefer the Form AP approach versus disclosure in the auditor's report.

3. Would disclosure on Form AP mitigate commenters' concerns about liability? Are there potential unintended consequences, including liability-related consequences under federal or state law, of the Form AP approach? If so, what are the consequences? How might the Board address them?

In our opinion, we believe disclosure on Form AP is more likely to mitigate concerns related to liability when compared to disclosure in the auditor's report. Regarding unintended consequences under federal or state law, we find the prognostication regarding such issues to be outside our comfort zone.

4. In addition to the required filing of the Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report? If so, what are those considerations? How might the Board address them?

While it is impossible to determine all of the unintended consequences of disclosures in the auditor's report, one likely impact is additional time spent by the firm(s) engaged to perform the audit. These costs (both direct and indirect) will be passed on to the audit client. If the cost increase is small the client will likely incur a small cost increase. If the cost increase is large the client will likely incur a large cost increase. So no matter what cost escalation is involved, it will be borne by the investors. One suggestion we would make to the Board regarding the consequence of increased audit cost is to assess the relationship of the cost increase to the value of the information being disclosed. Does knowing the name of the auditors on the audit engagement impact the investment decision or does having such information increase the potential for "finger pointing" after the fact if something goes wrong? Prudent investors invest in companies that they believe will provide the best return over an investment horizon, not on the names of the individuals who perform the annual audit.

5. What search criteria and functionality would users want for information filed on Form AP? What additional criteria and functionality beyond what is described in Section IV of this release would be useful? Would third-party vendors provide additional functionality if the Board does not? Are there cost effective ways to make the disclosure more broadly accessible to investors who may not be familiar with PCAOB forms?

We believe the best method for assessing the information on Form AP would be use of the PCAOB website. Such use would mirror how access to inspection reports and other PCAOB information is currently obtained.

6. Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP? Should the deadline be shorter or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (e.g., 60 days) in the first year of implementation? Should the 10-day deadline apply whenever the auditor's report in included in a Securities Act registration statement, not just in the case of an IPO?

We believe the appropriate amount of time for firms to file Forms AP should be the same whether it's an audit report or an IPO. We further believe that the a time frame should be 45 days rather than 30 days in the case of the auditor's report or 10 days in the case of an IPO. The reason we favor a 45 day period is that it would coincide with the "documentation assembly date." Firms already have a process in place that has them on a schedule to complete items in the 45 days after the report release date. It seems appropriate to fit the new Form AP filing deadline into the already existing 45 day period in effect for other post audit reporting issues.

7. This supplemental request for comment contemplates not requiring disclosure of non-accounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of non-accounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about non-accounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V? if the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficiently clear? Why or why not? Is the definition of control in Section V appropriate? Why or why not?

Yes, as specified in the supplemental request, we agree that it is an appropriate approach to not require disclosure of non-accounting firm participants.

8. Does Form AP pose any specific issues for EGCs? Would disclosure of the required information on Form AP promote efficiency, competition, and capital formation if applied to EGCs? If so, how? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard? Would creating an exemption for audits of EGCs benefit or harm EGCs or their investors? Why?

Auditors of EGCs are often under more budget time constraints than auditors of other issuers. Therefore, direct and indirect costs of filing Form AP may be higher for auditors of EGCs. While those costs may not be substantial, they would be passed on to the EGCs. As the requirement is only applicable to auditors, it would not promote efficiency, competition, and capital formation for any issuers, including EGCs, as we feel that the individual audit partner of the audit firm will be an insignificant addition to the information the investor considers in making their investment decisions, regardless of where disclosed. If the PCAOB believes that disclosure of the audit partner benefits transparency and accountability for other issuers that same benefit would be applicable to EGCs and creating an exemption would limit that benefit.

9. Does Form AP pose any specific issues for brokers, dealers, or other entities? If so, what are those issues? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard?

We are not aware of any specific issues for brokers, dealers or other entities except for the potential for confidentiality problems. However, we are not in a position to speak to the potential problems related to confidentiality. While the disclosures in Form AP will most likely require more information, we favor the Form AP approach.

10. Is the rule to implement Form AP, the instructions to Form AP, and the amendments to AU sec. 508 included in Appendix 1 clear and appropriate? Why or why not?

The rule, instructions, and amendments to AU sec. 508 are both appropriate and clearly stated.

11. Are there additional economic considerations associated with mandated disclosure, either in the auditor's report or on Form AP, that the Board should consider? If so, what are those considerations? The Board is particularly interested in hearing from academics and in receiving any available empirical data commenters can provide.

The likely economic issue that will raise the most concern is the impact of the mandated disclosure on the cost of the audit. Such cost increases will have an impact on a public company's cost of capital. The ultimate impact will be a function of the level of the cost increase. Empirical data on audit cost (direct and indirect) increases since the introduction of Sarbanes Oxley is readily available. To the extent that this process adds cost it provides incentives for registrants and potential registrants to seek capital through other channels that allow avoidance of these costs.

12. Assuming the Board adopts a rule during 2015, would it be feasible to make the requirement, either in the auditor's reports issued or reissued on or after June 30, 2016, or three months after the SEC approves the requirements, whichever is later? How much time following SEC approval would firms need to implement the requirement either in the auditor's report or on Form AP?

Assuming Board adoption of a rule in 2015, we believe it is feasible to make the effective date June 30, 2016, or three months after SEC approval, whichever is later.

We appreciate the opportunity to provide input into the standards setting process.

Sincerely,

Jerilyn K. Barthel

Jerilyn K. Barthel, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants

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1 September 2015

Dear Office of the Secretary

RE: Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form

The Investment Association represents the asset management industry in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of approximately £5 trillion (€5.6 trillion) of assets, which are invested in companies globally. In managing assets for both retail and institutional investors, our members are major investors in companies whose securities are traded on regulated markets. Therefore, they have an interest in the requirements governing the audit and the auditor's report to them as users of companies' accounts.

The Investment Association welcomes the opportunity to comment on PCAOB Release No 2015 -004. This requires auditors to disclose the name of the audit engagement partner and other participants in the audit on a new PCAOB form, Form AP.

Investors value high quality audits and consider that the judgement and objectivity of the audit engagement partner is critical to achieving this. But audit partners are not infallible and not all will necessarily operate the same standards. We consider being able to identify the audit engagement partner is an important part of improving the accountability of the auditor to shareholders, the ultimate clients.

Investors have consistently sought this information being disclosed in the audit report. But we appreciate that the approach now proposed and the Form AP is a pragmatic response to concerns raised by US accounting firms and others about the potential increased liability or litigation risk if the name of the engagement partner is in the audit report itself.

We particularly welcome the fact that the information on Form AP is to be available in a searchable database on the PCAOB's website. Whilst this approach would require more effort to locate the information – investors would have to visit the PCAOB website - it would be easier to determine all the audits by a particular engagement partner. Indeed certain of our members consider this an improvement on the original proposal in that the transparency afforded by a searchable database would facilitate research on resolutions to appoint an auditor by detailing all other appointments. This would make it easier to highlight if any of these gave rise to concerns. Moreover, it is possible that once the firms become accustomed to Form AP, it would only be a small step to providing the information on a voluntary basis in the audit report.

I trust that the above is self-explanatory but please do contact me if you require any clarification of the points in this letter or if you would like to discuss any issues further.

Yours sincerely

Liz Murrall
Director, Stewardship and Corporate Reporting

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August 31, 2015

Ms. Phoebe W. Brown
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Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Supplemental Request for Comment: *Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (PCAOB Release No. 2015-004, June 30, 2015; PCAOB Rulemaking Docket Matter No. 029)

Dear Ms. Brown:

The U.S. Chamber of Commerce[1] (the "Chamber") created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. The CCMC believes that businesses must have a strong system of internal controls, recognizes the vital role external audits play in capital formation, and supports efforts to improve audit effectiveness. Accordingly, the CCMC appreciates the opportunity to comment on the Public Company Accounting Oversight Board ("PCAOB") Supplemental Request for Comment on *Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* ("Supplemental Proposal") and wishes to express serious concerns regarding the Supplemental Proposal.

The Supplemental Proposal represents the latest PCAOB release on these matters and the CCMC has commented on two prior proposals.[2] Our concerns

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[1] The Chamber is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information.

[2] See CCMC letter dated March 10, 2014 on PCAOB Exposure Draft on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (PCAOB Release No. 2013-009, December 4, 2013; PCAOB Rulemaking Docket Matter No. 029) and CCMC letter dated January 9, 2012 on Proposed Rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB*

expressed in those two letters remain and we attach them with this letter as an appendix and request that they be made a part of the comment file for the Supplemental Proposal. The CCMC also has concerns that the Supplemental Proposal is not being put forth in a liability neutral fashion and that liability neutrality was not considered as part of the economic analysis. Finally, we also wish to raise the issue that comments are being solicited by the Securities and Exchange Commission ("SEC") on audit committee disclosures and the CCMC requests that the PCAOB defer to the SEC on this matter.

Consistent with our prior comments, the CCMC does not support mandating disclosure of this information. The CCMC believes that any such disclosures should be voluntary and that U.S. regulators should let market forces sort out the consequences of any jurisdictional requirements to disclose this information.

The CCMC also reiterates that in the United States., the Sarbanes-Oxley Act of 2002 ("SOX") created the PCAOB to regulate the accounting firms and individuals that audit public companies and reaffirmed the audit committee's responsibility for oversight of the external audit. There is no need for mandating these disclosures when investors trust these structures and processes created by SOX on their behalf. In addition, mandating these disclosures will never put investors "in the shoes" of the PCAOB or audit committees. Nonetheless, such disclosures may result in investors and others unnecessarily second-guessing decisions of the PCAOB and audit committees—based on partial and incomplete information, which in turn undermines trust in regulatory and governance processes.

The PCAOB issued the Supplemental Proposal to solicit comment on an alternative mechanism for disclosing the name of the engagement partner and information about certain other participants in the audit—namely via a new PCAOB Form AP.[3] The CCMC appreciates that creating a new disclosure Form AP, instead of requiring disclosure in the auditor's report, is intended to respond to concerns

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Auditing Standards and Form 2 (PCAOB Release No. 2011-007, October 11, 2011; PCAOB Rulemaking Docket Matter No. 029).

[3] The Supplemental Proposal indicates that the PCAOB is considering a basic filing deadline of 30 days after the date the auditor's report is first included in a document filed with the SEC, with a shorter deadline of 10 days for initial public offerings (or within 10 days after the registration statement is publicly filed with the SEC for emerging growth companies ("EGCs")).

raised by commenters, including the CCMC, that the PCAOB's proposed disclosures would create both legal and practical issues.

However, the Supplemental Proposal represents a response to such concerns only regarding disclosures in auditors' reports included or incorporated by reference into registration statements under the Securities Act of 1933—specifically in regards to liability under Section 11 and consents required under Section 7.[4] The Supplemental Proposal does not otherwise respond to litigation risks that would be created by the proposed disclosures, including under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

The CCMC reiterates that we strongly believe that liability neutrality represents a minimum threshold for these disclosures. The Supplemental Proposal states this PCAOB rulemaking process was undertaken in response to a recommendation of the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession ("ACAP") that the PCAOB should consider mandating the engagement partner's signature on the audit report. However, as the CCMC has previously emphasized, this ACAP recommendation (regardless of form or placement of the name of the engagement partner) was premised on liability neutrality.

Further, the precondition of liability neutrality should also be part of an economic analysis. The CCMC has emphasized the importance of the PCAOB conducting substantive and robust economic analysis. Although consisting of 27 pages of qualitative discussion, the "Economic Considerations" section of the Supplemental Proposal does not address liability considerations at all.

The Supplemental Proposal does not resolve other concerns discussed in our prior comments. While we do not restate these concerns, please consider them to be incorporated by reference in this letter.

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[4] Section 11 of the Securities Act of 1933 imposes liability on certain participants in a securities offering, including every accountant who, with his or her consent, has been named as having prepared or certified any part of the registration statement or any report used in connection with the registration statement. Section 7 of the Securities Act of 1933 requires that the consent of every accountant so named in a registration statement must be filed with the registration statement.

Lastly, it is important to recognize that on July 1, 2015, the SEC voted to publish a Concept Release on *Audit Committee Disclosures* ("SEC Concept Release"). Among other matters, the SEC Concept Release solicits public comment on whether the SEC should require audit committees to disclose the name of the engagement partner and information about certain other participants in the audit.

While the CCMC does not support mandating disclosure of this information, as we have stated in our prior letters, the CCMC believes that any such disclosure is better suited for inclusion in a report by the audit committee in the proxy statement. Given the SEC has taken up considering the disclosure of this information, the CCMC urges the PCAOB to defer to the SEC on this matter.

Once again, the CCMC appreciates the opportunity to comment on the Supplemental Proposal. Thank you for your consideration and the CCMC stands ready to assist in these efforts.

Sincerely,

Tom Quaadman

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January 9, 2012

Mr. J. Gordon Seymour
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Re: PCAOB Proposed Rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (PCAOB Release No. 2011-007, October 11, 2011 and PCAOB Rulemaking Docket Matter No. 29)

Dear Mr. Seymour:

The U.S. Chamber of Commerce (the "Chamber") is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.

The CCMC believes that businesses must have a strong system of internal controls and recognizes the vital role external audits play in capital formation. The CCMC appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") Proposed Rulemaking on ***Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*** ("the Proposal").

The CCMC is concerned that the Proposal will undermine the foundation of the audit process impairing transparency and accountability. The CCMC believes that the Proposal in its current form will obfuscate essential responsibilities thereby harming accountability. Because of these concerns and the lack of any tangible demonstrated benefit, the CCMC believes that the Proposal should be reassessed through a public roundtable of all interested stakeholders and additional outreach such as field testing.

Rather than moving forward on this Proposal, the CCMC believes that the PCAOB should concentrate its efforts on updating its quality control standards that are long overdue for updating.

Discussion

The Proposal would amend the PCAOB standards and rules to require registered public accounting firms to make two new disclosures in the audit report:

1. The name of the engagement partner for the most recent period's audit; and

2. Information on other independent public accounting firms and other persons that took part in the audit. In addition, the name of the engagement partner would also be required to be disclosed in Form 2 filed with the PCAOB for each audit report already required to be reported on the Form.

A foundational precept of independent audits is that the audit firm has ultimate responsibility for the audit report, while the opinion rendered represents the combined efforts of a team of individuals. Proposing disclosure requirements that could undermine and confuse this essential responsibility would impair transparency and accountability. It is also unclear what the objectives of the Proposal are, how the Proposal furthers the mission of the PCAOB, and what the consequences of the Proposal are in terms of its costs and benefits.

1. Disclosing the Name of the Engagement Partner

The proposal to disclose the name of the engagement partner for the most recent period's audit evolved from the PCAOB's ***Concept Release on Requiring the Engagement Partner to Sign the Audit Report*** issued on July 28, 2009. Among the concerns expressed by commenter's on that Concept Release was that partner signatures would suggest the engagement partner is responsible for the audit engagement and increase engagement partner legal liability.

The CCMC commends the PCAOB for responding to these concerns by not pursuing the original Concept Release. However, the CCMC believes that these fundamental concerns regarding the Concept Release hold equal weight with the current Proposal.

It is also problematic that the PCAOB continues to move in the direction of expecting engagement partners to somehow build their own individual reputations for audit quality, independent of their firm's reputation, undermining accountability in the audit process and harming investor protection.

In reality, the firm's quality control system, in accordance with the PCAOB's "interim" quality control standards, provides the foundation for the efficacy of the work performed on the engagement by the team of individuals in rendering the audit opinion. The CCMC believes that the PCAOB's quality control standards are long overdue for updating. Investors would likely be better served by the PCAOB focusing its efforts on updating these standards rather than diverting its time and resources on the Proposal.

a. Legal Liability

The potential for the disclosure of the name of the audit partner to increase engagement partner legal liability was recognized by Board Member Dan Goelzer in his Statement on the Proposal and his comments at the PCAOB's open Board meeting on October 22, 2011. The duties and relationships established by federal securities laws, Securities Exchange Act Rule 10b-5 and Securities Act Section 11 are the basis of those concerns. The June 2011 decision of the U.S. Supreme Court in *Janus Capital Group, Inc.*[1] has added to the uncertainty over legal liability under Rule 10b-5 in the context of this Proposal. In addition, it remains to be seen whether the Securities and Exchange Commission ("SEC") would require issuers to file not only the consent of the accounting firm that prepared the audit report but also a separate

[1] See *Janus Capital Group, Inc. v. First Derivative Traders*, 131 S.Ct. 2296 (2011).

consent of the engagement partner whose name is disclosed in the audit report.[2] If this requirement unfolds, this would subject the partner, along with the accounting firm, to potential Section 11 liability. Further, the CCMC understands liability issues could potentially extend to disclosure of the name of the engagement partner in PCAOB Form 2.

Given these legal uncertainties, the CCMC believes it would be premature of the PCAOB to proceed with this Proposal. The Board needs to fully understand the liability implications and have persuasive evidence that disclosure of the name of the engagement partner would be liability neutral. Neutrality is consistent with the recommendation of the Advisory Committee on the Auditing Profession ("ACAP") that was the genesis for the Proposal.[3] The ACAP recommendation was premised on the condition that the requirement not impose on the engagement partner "any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm."[4]

b. Objectives

The Proposal reiterates that the objectives from the Concept Release on partner signature—namely transparency and accountability—continue to be the objectives for disclosing the name of the engagement partner in the audit report and on PCAOB Form 2. Unfortunately, these objectives lack clarity in the context of this Proposal.

While the Proposal articulates the "means" of disclosing more information, it fails to state the "ends" it seeks to achieve. The Proposal fails to articulate the problem that needs to be addressed and how disclosing the name of the engagement partner will enhance financial reporting for investors.

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[2] If this scenario was to unfold, it is unclear if an issue of consent would be created for others participating in the audit.
[3] ACAP recommended that the PCAOB "undertake a standard-setting initiative to consider mandating the engagement partners' signature on the auditor's report (*Final Report of the Advisory Committee on the Auditing Profession to the* U.S. *Department of the Treasury*, (2008), VII: 19, VII: 20).

[4] *Ibid* at VII: 20. The ACAP Report also noted that this language is similar to safe harbor language the SEC promulgated in its rulemaking pursuant to The Sarbanes-Oxley Act of 2002 ("SOX") for audit committee financial experts.

Such an articulation is important as the Proposal simply provides conjectures for some of which the Board seeks comments on. For example, the Board asks whether the additional transparency could promote auditor independence by discouraging audit clients from inappropriately pressuring the firm to remove an engagement partner sooner than is required under the partner rotation requirements in SOX and SEC rules[5]. Yet, there are many substantive reasons for changes in engagement partners. And, without additional information disclosed about the reason for a change in the engagement partner an "inappropriate" partner change could not be discerned from a change in the name alone.

At the November 2011 meeting of the PCAOB's Standing Advisory Group ("SAG"), PCAOB staff emphasized that no such additional disclosure regarding a change in engagement partners is proposed or planned. Indeed, current disclosure requirements on auditor change reside within the SEC's jurisdiction and strongly suggest that any rulemaking along these lines would be better left to the SEC.

In the Proposal, accountability is described in terms of the original Concept Release with the added proviso that disclosure may make partners feel more accountable for the quality of the work and, therefore: "Disclosing the name of the engagement partner may be one means of promoting better performance"[6]. Not all agree with that statement and at the November 2011 SAG meeting; one SAG member took strong issue with this notion.

Reinforcing the speculative and likely illusory nature of any such improvements, the PCAOB has provided no evidence related to how this Proposal might improve audit quality. This is important because audit quality is the PCAOB's mission. As Dan Goelzer stated at the PCAOB's open Board meeting on October 11, 2011: "Unless engagement partner disclosure can be directly linked to improving audit quality, or to promoting understanding of the financial statement audit or of the Board's inspection program, the issue would seem to fall in the SEC's bailiwick."[7]

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[5] PCAOB Proposed Rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (PCAOB Release No. 2011-007, October 11, 2011 and PCAOB Rulemaking Docket Matter No. 29), Page 9.
[6] Ibid.
[7] See "Statement on Proposed Amendments to Improve Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits" at the October 11, 2011 PCAOB Open Board Meeting by Daniel L. Goelzer, Board Member.

c. *Improving Audit Quality*

Evidence linking the Proposal with improvements to audit quality is a necessary condition for PCAOB rulemaking and for SEC approval of such rulemaking. The absence of any such evidence is likewise troublesome because the PCAOB considers collecting such evidence through its inspection process as one of its unique strengths. For example, the PCAOB's Strategic Plan for 2011-2015 (the "Strategic Plan") states: "We possess unique data and analysis related to audits based on eight years of inspections and enforcement experience, as well as a sophisticated research and analysis function".[8] Yet, there is no PCAOB data or analysis in evidence to support this Proposal and the Proposal makes no reference to the PCAOB having either collected or analyzed any relevant data.

Paradoxically, the objective for the disclosure of the name of the engagement partner, particularly the Form 2 disclosures, appears to be to facilitate analysis *by others,* not for the benefit of the PCAOB. For example, the Proposal states the purpose of the Form 2 disclosures is to compile this information in one place that could be easily accessed[9]. This implies that meaningful analysis of this data is possible and useful, which in reality is problematic given the complex nature of audit quality. This also ignores the facts that a thorough analysis of any such data requires such data to be considered in conjunction with information that may not be available or relevant to investors.[10]

Finally, it is worth noting that the PCAOB has not yet developed audit quality indicators—another ACAP recommendation. It would seem that the development of such indicators should occur in advance of any rulemaking on disclosing the name of the engagement partner as, at least implicitly, the Proposal is suggesting that the name of the engagement partner is somehow a quality indicator.

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[8] See Public Company Accounting Oversight Board Strategic Plan: *Improving the Relevance and Quality of the Audit for the Protection and Benefit of Investors 2011-2015* (November 30, 2011), Page 8.
[9] PCAOB Proposed Rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (PCAOB Release No. 2011-007, October 11, 2011 and PCAOB Rulemaking Docket Matter No. 29), Page 17.
[10] Additionally, the Proposal fails to take into account that various actors aggregate a variety of data from SEC filings that they find relevant.

d. Other Costs and Benefits

An additional motivation for disclosing the name of the engagement partner appears to be to provide useful information for audit committees. For example, the Proposal reiterates a point made in the Concept Release that "providing financial statement users, audit committees, and others with the name of the engagement partner might provide them the opportunity to evaluate, to a degree, an engagement partner's experience and track record. If so, audit committees might increasingly seek out engagement partners who are viewed as performing consistently high quality audits, and the resulting competition could lead to an improvement in audit quality"[11]. However, this rationale cannot serve as a basis for rulemaking as audit committees already have access to this information and would need to use it in conjunction with a variety of other information, both public and private, for assessing quality on their audits.

As expressed in previous letters to the PCAOB,[12] the CCMC continues to be concerned that this Proposal provides yet another illustration of the PCAOB's skepticism regarding the role of audit committees and that this and other PCAOB proposals may actually interfere with the prerogatives, discretion and duties of audit committees. For example, with this Proposal, the PCAOB seems to be expecting investors to second guess the work of audit committees based on "one" data point – the name of the engagement partner.

2. <u>Disclosing Information on Others Participating in the Audit</u>

Somewhat ironically the Proposal combines a disclosure focused on one individual with a requirement to disclose more information about others participating in the engagement not employed by the auditor. The Proposal calls for disclosure, with limited exceptions, of other participants in the audit for whose audit the auditor takes responsibility or whose audit procedures the auditor supervises. The Proposal

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[11] Ibid, Page 6.

[12] For example, see the September 14, 2011 letter from the U.S. Chamber of Commerce CCMC to the PCAOB on the *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements* (PCAOB Release No. 2011-003, June 21, 2011, Rulemaking Docket Matter No. 34) and the October 20, 2011 letter from the U.S. Chamber of Commerce CCMC to the PCAOB on the *Concept Release on Auditor Independence and Audit Firm Rotation* (PCAOB Release No. 2011-006, August 15, 2011, PCAOB Rulemaking Docket Matter No. 37).

would require the auditor to disclose in the audit report, the names, location, and percentage of hours attributable to the other participants for those whose participation is 3% or greater of total hours. Disclosures would also be required when the auditor divides responsibility with another independent public accounting firm.

The Proposal suggests that these disclosures would "enable investors and other users of the audit report to determine whether a disclosed independent public accounting firm is registered with the Board and has been subject to PCAOB inspection, and whether a disclosed independent public accounting firm or another person has had any publicly available disciplinary history with the Board or other regulators"[13]. However, this is information that the audit committee has access to and can consider in exercising its oversight responsibilities. Further, the auditor either takes responsibility for the work of others or divides responsibility. In the case of the later, current disclosures to investors do not appear wanting for assessing audit quality and the applicability of PCAOB inspection information.

Essentially the "new" information proposed to be disclosed involves work for which the auditor assumes responsibility. As such, the proposed disclosures are likely to only cause confusion over who has responsibility for the audit. The CCMC notes that avoiding such confusion is an important objective of current auditing standards. This suggests that investors would be better served with more targeted disclosures founded on some meaningful objective.

The potential for confusion is exacerbated by the low threshold for disclosure of 3% being proposed. The basis for this threshold is unclear as the Proposal provides no meaningful rationale for it. Further, a 3% threshold is much lower and in marked contrast to the 20% threshold already incorporated in PCAOB rules to determine others performing a substantial role in audits and thus subject to PCAOB registration and inspection. So, why should investors be interested in what the PCAOB is not?

Further, there is no indication that the PCAOB has field-tested the 3% threshold to determine the relevance of the information to be disclosed. For example,

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[13] PCAOB Proposed Rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (PCAOB Release No. 2011-007, October 11, 2011 and PCAOB Rulemaking Docket Matter No. 29), Page 20.

the Proposal contains no useful illustrations based on real-world data. The absence of these data to inform stakeholders about the implications of the Proposal is surprising, given the PCAOB has access to the necessary data through its inspection process and, as previously noted, the PCAOB emphasizes this in its Strategic Plan as strength of the organization.[14]

Conclusion

The CCMC appreciates the opportunity to comment on the Proposal. However, the CCMC believes that the Proposal will disseminate information that is non-material, lacks relevance that could undermine the fundamental foundations of the audit function hampering the ability of investors to make informed decisions. Without a clear articulation of the problems to be solved and the benefits of the proposal, the CCMC does not believe that the proposal should move forward.

Furthermore, based on the statements and comments by Board members at the October 11, 2011 open Board meeting, it appears that the majority of Board members strongly support enacting the Proposal raising potential due process questions. The CCMC hopes that the PCAOB will take the concerns expressed in this letter under consideration when deliberating on the Proposal.

Thank you for your consideration and the CCMC stands ready to discuss these concerns in further detail.

Sincerely,

Tom Quaadman

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[14] While the CCMC does not believe that it is in the best interests of financial reporting to move forward on this proposal, one alternative the PCAOB may wish to consider is that the Form 2 would be a more useful location for such disclosures, as the determination of information in SEC filings is more appropriately maintained within the SEC's jurisdiction, Form 2 disclosures would not lengthen issuer and broker-dealer filings with tangential information, and Form 2 disclosures would not be subject to the estimation of hours necessitated by the short time constraints for SEC filings. In addition, disclosure in Form 2, instead of the audit report, might help mitigate potential liability issues and confusion over auditor responsibility, as previously discussed.

CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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March 10, 2014

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006

Re: PCAOB Exposure Draft on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (PCAOB Release No. 2013-009, December 4, 2013; PCAOB Rulemaking Docket Matter No. 029)

Dear Ms. Brown:

The U.S. Chamber of Commerce (the "Chamber") is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. The CCMC believes that businesses must have a strong system of internal controls and recognizes the vital role external audits play in capital formation. The CCMC supports efforts to improve audit effectiveness and appreciates the opportunity to comment on the Public Company Accounting Oversight Board ("PCAOB") Exposure Draft on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* ("the Proposal").

The CCMC has serious concerns that the PCAOB has not met the minimum thresholds needed to move forward on the Proposal, namely the failure to demonstrate how the Proposal will provide investors with decision useful information and what investor interests are being addressed. While the CCMC applauds the PCAOB for establishing the Center for Economic Analysis, the Proposal's cost-benefit analysis is insufficient as it fails to provide stakeholders with an analysis to comment on, nor is any analysis provided to meet the statutory requirements as to why Emerging Growth Companies ("EGCs") should be subject to the Proposal if adopted. Finally, the issues raised in our January 9, 2012 comment letter to the Proposal's predecessor ("2012 letter") remain unaddressed. Accordingly, we have attached the 2012 letter as an appendix to this letter and ask that it also be considered a part of the record.

Our concerns are discussed in more detail below.

I. Background

The Proposal would require disclosure in the auditor's report of the following:

- The name of the engagement partner;

- The names, locations, and extent of participation of other independent public accounting firms that took part in the audit; and

- The locations and extent of participation of other persons not employed by the auditor, whether an individual or a company, ("other participants") that took part in the audit.

The Proposal represents the latest PCAOB release on these matters. In July 2009, the PCAOB issued a Concept Release on *Requiring the Engagement Partner to Sign the Audit Report.* In October 2011, the PCAOB proposed a rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*. The CCMC provided comments on the proposed rulemaking.[1]

[1] *See* the January 9, 2012 letter from the U.S. Chamber of Commerce CCMC to the PCAOB on Proposed Rulemaking on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2* (PCAOB Release No. 2011-007, October 11, 2011 and PCAOB Rulemaking Docket Matter No. 29).

II. Naming the Engagement Partner

While the Proposal calls for audit firms to disclose the name of the engagement partner in the auditor's report, it does not provide a meaningful rationale for why this should be done. The Proposal states that this information "***could*** be valuable to investors in making investment decisions as well as if they are asked to vote to ratify the company's choice of registered firm as its auditor" (emphasis added).[2] However, there is a marked failure to show how this change in disclosure will benefit investors and the arguments in support of the Proposal, including those related to audit quality, are superficial.[3]

The Proposal states the "means" of more disclosure but fails to demonstrate the "ends" it seeks to achieve. The Proposal does not articulate the problem that will be resolved through the adoption of the Proposal, or how the Proposal is the best option to solve the undefined problem. Moreover, the Proposal fails to show how investor needs will be enhanced through the naming of the engagement partner.

a. Audit Quality

As we expressed in the 2012 letter, regardless of their nature and size, audits are performed by a team of individuals. In reality, the audit firm's quality control system, in accordance with the PCAOB's "interim" quality control standards, provides the foundation for the efficacy of the work performed on audits. The CCMC continues to believe that investors would be better served by the PCAOB focusing its efforts on updating its quality control standards rather than naming the engagement partner.

The Proposal states that the PCAOB has noticed through its inspection process variation in the quality of audits performed. While the inspections process can and should be a useful tool in setting priorities for the PCAOB, the justification for the Proposal falls short. The Proposal states that, while many factors contribute to this variation, the role of the engagement partner is an important factor to

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[2] *See* page 3 of the Proposal.
[3] Setting aside the conceptual flaws with the Proposal, from a practical standpoint, the CCMC notes that naming the engagement partner in the auditor's report is retrospective and does not necessarily disclose to investors the identity of the engagement partner for the *upcoming* period that applies to the shareholder vote on ratification of the audit firm.

consider.[4] Unfortunately, this is not a compelling argument for this Proposal. If a variation of audit quality is found because of a variety of factors, either that combination of factors must be addressed in a policy response, or a clear and demonstrable showing must be made of how naming the engagement partner is the over-riding cause of such a variation.

The Proposal does not make either case.

Naming the engagement partner does not enable investors or other third-parties to even begin to approach "stepping into the shoes" of the PCAOB or audit committee. Indeed, third-parties may instead get an incorrect view of the role of the engagement partner related to audit quality based on the information available from the name of the engagement partner. Investors are better served by relying on the regulatory and governance processes rather than trying to second guess these processes based on a disclosure of the name of the engagement partner.

Reinforcing this point, the CCMC notes that another current PCAOB initiative focuses on developing audit quality indicators ("AQIs"). The PCAOB staff Discussion Paper for the May 15-16, 2013 meeting of the Standing Advisory Group ("SAG") describes this initiative. The definition of audit quality in the Discussion Paper includes "meeting investors' needs for independent and reliable audits."[5] In this regard, the SAG Discussion Paper provides 40 different AQIs involving operational inputs (13), the audit process (15), and audit results (12). The name of the engagement partner is not among these 40 AQIs. Thus, the PCAOB's own initiative on audit quality does not recognize the relevance of disclosing the name of the engagement partner to investors.

b. Legal Liability

The Proposal calls for placing the disclosure of the name of the engagement partner in the auditor's report. In the 2012 letter, the CCMC expressed concern that disclosing the name of the partner could increase engagement partner legal liability. Disclosure in the auditor's report is a major contributor to the liability increase.

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[4] *See* page 6 of the Proposal.
[5] *See* pages 3 and 4 of the Discussion Paper on AQIs for the May 15-16, 2013 SAG meeting.

The CCMC appreciates that the Proposal contains a section on liability considerations, including under Section 11 of the Securities Act and Section 10(b) and Rule 10b-5 of the Exchange Act.[6] As explained in the Proposal, Section 11 of the Securities Act imposes liability for material misstatements or omissions in a registration statement, subject to a due diligence defense, on "every accountant … who has with his consent been named as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement … which purports to have been prepared or certified by him."[7]

In turn, Section 7 of the Securities Act requires issuers to file with the Securities and Exchange Commission ("SEC") the consent of any accountant who is named as having prepared or certified any part of the registration statement or any valuation or report included in the registration statement. The Proposal recognizes that engagement partners (and participating accounting firms) named in the auditor's report would have to consent to the inclusion of their names in such reports filed with the SEC, or included by reference in another document filed under the Securities Act with the SEC.[8]

As to Section 11 liability, the Proposal acknowledges litigation-related costs would increase, but conjectures that these costs should "not be substantial."[9] As to liability under Section 10(b) of the Exchange Act, the Proposal acknowledges concerns similar to those we expressed in our letter of January 9, 2012 and states that the Board "cannot conclude with certainty whether its approach might increase liability."[10]

The CCMC continues to strongly believe that "liability neutral" represents a minimum threshold for proceeding with any initiative that would involve disclosing the name of the engagement partner. The CCMC urges the PCAOB to recognize this important pre-condition as anything other than liability neutral standards will ultimately harm investors. Such a precondition should also be a part of an economic

[6] *See* pages 20-26 of the Proposal.
[7] *See* page 21 of the Proposal.
[8] *See* pages 21-22 of the Proposal.
[9] *See* page 23 of the Proposal.
[10] *See* page 25 of the Proposal.

analysis.[11] Economic analysis should be used to determine if a proposed standard or revision to a standard is liability neutral and if not what the costs to investors and businesses will be.

c. Placement of Disclosures

While the CCMC does not support a requirement to disclose the name of the engagement partner, we would also like to comment on the Proposal in regards to the placement of any such disclosure. If any such requirement ensues from this initiative, disclosures should not be in the audit report. Rather than being part of the auditor's report, any such disclosure seems better suited for inclusion in a report by the audit committee in the proxy statement.

Importantly, the PCAOB could have circumvented some of the Section 11 liability concerns previously discussed by not proposing the name of the engagement partner (and other participants involved in the audit) be disclosed in the auditor's report. An alternative mode of naming the engagement partner would be a disclosure on the PCAOB's website through the use of Form 2.

In this regard, it is worth recalling that the PCAOB's October 2011 Proposed Rulemaking would have required disclosure of the name of the engagement partner in both the audit report and PCAOB Form 2. Instead of focusing the initiative on disclosures in Form 2, the current Proposal would require the disclosure only in the audit report. Apparently this focus was premised on arguments that disclosures in the audit report on the SEC's website would be more timely and accessible for investors. However, these arguments are not at all compelling.

It is unclear as to why a posting on both the SEC's and PCAOB's websites would not be the preferable route of disclosure. If the decision to make this disclosure on the SEC website alone is because the PCAOB's website is not "user friendly", that is a problem that can be fixed by the PCAOB. It cannot be used as a rationale to impose costs on all stakeholders. Moreover, according to the PCAOB's Strategic Plan and statements by Board members at the PCAOB's November 25,

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[11] Liability neutrality is not a new concept; it was also included in the *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* (2008), VII: 19-20.

2013 open meeting on the PCAOB budget,[12] the PCAOB already has an initiative underway to leverage its technology, improve the "usability" of its website, and enhance communication to public constituencies. Thus, this technology "impediment" seems fixable in the near term; and, it is under the purview of the PCAOB to do so.

Further, the notion that investors would have all necessary information in-hand with disclosure of the name of the engagement partner in the audit report is flawed. Setting aside that the name of the engagement partner is unlikely to provide any actionable information for investors, there is no information content in the name of the engagement partner per se. Indeed, it is unclear how the disclosure of a name, which on its face will be of no utility to an investor, will help the reasonable investor make an investment decision. Indeed, the PCAOB acknowledges in the Proposal that this disclosure would have to be considered in combination with other information.[13]

It appears that the PCAOB envisions some of this other information would come from the SEC's website, but it would also involve information on the PCAOB's existing website as well. In addition, according to the Proposal, much of this other information would have to be obtained (and only available over time) from academic research and databases developed by third-parties.[14] Thus, the argument that the name of the engagement partner needs to be included in the audit report in order for investors to have all necessary information readily available in one place falls apart in practice.

Not disclosing the name of the engagement partner (and other participants in the audit) in the auditor's report would likewise avoid the complex and costly administrative nightmare that would be imposed on audit firms and issuers from needing to obtain Section 7 consents from engagement partners (and other participating accounting firms) so that issuers could file required consents with the SEC. The Proposal fails to recognize the multiple difficulties that would arise in trying to obtain such consents. These difficulties would likely hinder the ability of issuers to make timely filings with the SEC, thereby harming investors.

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[12] For example, see *PCAOB Strategic Plan: Improving the Quality of the Audit for the Protection and Benefit of Investors 2013-2017* (November 26, 2013), pages 16-17.
[13] *See* page 11 of the Proposal.
[14] *See*, for example, pages 12-13 of the Proposal.

As just one example of the difficulties that could arise from needing Section 7 consents, assume that an engagement partner is rotated off an audit because of the Sarbanes-Oxley Act of 2002 ("SOX") mandatory partner rotation requirement and the SEC's rules implementing this requirement. Also assume that the partner's initial consent needs to be reissued. On one hand, the partner would need to do additional work in order to allow the reissuance of the consent.[15] On the other hand, the partner would be precluded from doing any additional work because it would cause the audit firm to be in violation of the SEC's independence rules. Moreover, this example assumes the partner would be willing and able to reissue the consent and does not consider the need to address the myriad of circumstances when this would not be the case.

The Proposal appears to set up a dynamic whereby PCAOB requirements would force the SEC to waive its requirements (as a matter of policy) for audit partners (and other participants in audits) to reissue their consents in a broad array of circumstances in order to make our markets function efficiently.

All things considered, the arguments in the Proposal for disclosing the name of the engagement partner (and other participants in the audit) in the audit report are simply not convincing. The proposed placement of the disclosures significantly increases the costs of the Proposal, including legal and administrative costs, for no substantive benefit. The CCMC strongly urges that the PCAOB reconsider the Proposal in this regard.

III. Other Participants in the Audit

In addition to disclosing the name of the engagement partner, the Proposal would also require that the audit report disclose the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and the locations and extent of participation of other persons not employed by the auditor. The proposed threshold for these disclosures is any public accounting firm or other participant performing 5% or more of the total hours in the most recent period's audit. This threshold is designed to demonstrate if an accounting firm plays a substantial role in the audit. The current threshold is 20%.

[15] Our discussion sets aside any considerations related to determining the nature of and standards for this work.

While the CCMC appreciates that the Proposal does raise the threshold from the 2011 proposal of 3% to 5%, we believe that the Proposal does not provide a compelling case for why the current 20% threshold should not be used instead.

As expressed in our 2012 letter, we do not believe that it is in the best interests of financial reporting to move forward on these matters. And, as previously discussed in this letter, we continue to be concerned that any such disclosures do not belong in the auditor's report.

IV. Cost Benefit Analysis

The Proposal recognizes that the Jumpstart Our Business Startups Act ("JOBS Act") now makes economic analysis a necessary pre-condition for applying new PCAOB auditing standards and rules to an audit of any emerging growth company ("EGC"). Specifically, Section 103(a) (3) of SOX as amended by Section 104 of JOBS Act requires that rules adopted by the Board after the date of enactment of JOBS Act shall not apply to an audit of any EGC, unless the SEC determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation. The Proposal recommends that EGCs follow the requirements if adopted.

At the outset, we commend the PCAOB for establishing the Center for Economic Analysis to help fulfill the statutory requirements of the JOBS Act. The CCMC has been a strong advocate of economic analysis as a means of using empirical evidence to guide smart regulation and standard setting.[16]

However, in our view, the economic analysis provided with the Proposal fails to provide commenters with any information to comment on and fails to delineate the costs or benefits to EGCs if they are to follow the requirements of the Proposal. Indeed there is no analysis to provide an articulation of the benefits or of the costs to

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[16] For example, see the December 9, 2013 letter from the U.S. Chamber of Commerce CCMC to the PCAOB on Proposed Auditing Standards on *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; the Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards* (PCAOB Release No. 2013-005, August 13, 2013 and PCAOB Rulemaking Docket Matter No. 34).

EGCs. This not only calls into question the ability of the Proposal to meet the economic analysis requirements needed for the Proposal to be approved through the SEC's rulemaking process, it also raises questions regarding the level of the PCAOB's commitment to economic analysis.

A review of some academic studies of companies in jurisdictions that do not have similar legal, regulatory, governance, market, and cultural environments and structures with the United States does not pass muster as an economic analysis. The Proposal contains no analysis or articulation of the direct costs to issuers, the direct costs to auditors, possible liability costs to issuers, possible impacts on stock price, possible impacts on returns to investors, potential discussion of benefits, if any public companies in the United States voluntarily disclose the name of the engagement partners and the costs and benefits comparing those companies to similarly situated companies. This is by no means an exhaustive list, but it is the type of analysis that accompanies proposed regulations when required by law. As such an analysis is required by the JOBS Act and as this Proposal must go through the SEC rulemaking process which will require an analysis of the impacts on competition and capital formation a more thorough study subject to public comment is necessary to move forward in applying the Proposal to EGCs.

The CCMC notes that the PCAOB's Strategic Plan for 2013-2017 states the PCAOB has developed "internal" guidance on economic analysis.[17]. The CCMC strongly urges the PCAOB to release its internal guidance on economic analysis for public comment so that stakeholders can be informed of the PCAOB's understanding of the role of economic analysis and how it can be used. Such public commentary can create a useful dialogue on the issue that all sides can benefit from. The merits of the PCAOB's analysis of costs and benefits in any particular proposal cannot be evaluated without understanding the essentials of the guidance being applied by the PCAOB for economic analysis.

The CCMC is very disappointed with the level of economic analysis provided in the Proposal and believes that it cannot pass the requirements of the JOBS Act and other statutory provisions that must be met for the Proposal to be approved and

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[17] For example, see page 13 of the PCAOB *Strategic Plan: Improving the Quality of the Audit for the Protection and Benefit of Investors 2013-2017* (November 26, 2013).

become operational. Economic analysis, with a thorough weighing of the costs and benefits, can and should be used as a means of using empirical evidence to develop smart regulations. That goal has not been met.

V. Conclusion

Once again, the CCMC appreciates the opportunity to comment on the Proposal. However, the CCMC has serious concerns that the Proposal in its current form is flawed.

The Proposal fails to demonstrate how naming an engagement partner will improve audit quality, will provide investors with decision-useful information, and what investor interests are being addressed. Additionally, the cost-benefit analysis is insufficient as it fails to provide stakeholders with an analysis to comment on, nor is any analysis provided to meet the statutory requirement that must be fulfilled for the Proposal to be applied to EGCs. Indeed, we are concerned about the commitment of the PCAOB to a robust economic analysis as envisioned by the bipartisan JOBS Act.

Thank you for your consideration and the CCMC stands ready to assist in these efforts.

Sincerely,

Tom Quaadman

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

August 31, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
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PCAOB Release No. 2015-004 Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form (June 30, 2015)

This letter provides GAO's comments on the Public Company Accounting Oversight Board's (PCAOB) Release 2015-004, a supplemental request for comment on its 2013-009 Reproposed Rule (hereafter Release 2015-004).

We support the PCAOB's efforts to improve the quality of financial reporting and increase the confidence users have in the audit of financial statements, and we encourage the PCAOB to work closely with other standard setters, such as the International Auditing and Assurance Standards Board (IAASB) and the Auditing Standards Board, to promote consistency of practice by harmonizing auditing standards.

Under the prior 2013-009 Reproposed Rule, auditors would be required to disclose in the auditor's report the name of the engagement partner and information about certain other participants in the audit. The PCAOB's Release 2015-004 presents an alternative whereby such information would be required to be disclosed on a new PCAOB form (Form AP).

In our March 17, 2014, comment letter to the PCAOB on its 2013-009 Reproposed Rule, we raised certain significant concerns. As a result of (1) the changes the PCAOB incorporated in Release 2015-004 and additional information presented therewith (which deals with many of our concerns), (2) the evolution of this issue at the international level, and (3) our belief in the benefits of transparency, we do not object to the PCAOB's alternative proposal in Release 2015-004.

The PCAOB's Release 2015-004 and additional information presented therewith addressed or reduced many of the concerns that we raised in our March 17, 2014, letter. Specifically, in Release 2015-004, the PCAOB included a section within appendix 2 "Economic Considerations," that among other things discusses the PCAOB's views on possible "indirect costs and unintended consequences associated with the disclosures under consideration." Accordingly, we note that the PCAOB has presented additional information to support its view that a repository of information on individual partners may improve the quality of financial reporting. In our March 17, 2014, comment letter we suggested that if the PCAOB determines that public disclosure of the engagement partner name and the information about certain other participants in the audit is appropriate, such disclosure be provided in documents other than the auditor's report. We note that consistent with our suggestions, the PCAOB's alternative in Release 2015-004 would require disclosure of such information in Form AP.

The evolution of this issue at the international level has also affected our views, as we have consistently advocated for robust standards that are in harmony among the various standard setters. We note that in January 2015 the IAASB's published International Standard on Auditing (ISA) 700 (Revised)—*Forming an Opinion and Reporting on Financial Statements*—which requires, except in rare circumstances, the inclusion of the engagement partner's name in the auditor's report. Through the alternative included in Release 2015-004, in substance, the PCAOB standards, as it relates to disclosing the engagement partner's name, would be in harmony with the IAASB's ISA 700 (Revised).

Also, we have been a consistent advocate of accountability and transparency. We note that as discussed in appendix 2 in Release 2015-004, the PCAOB evaluated the potential benefits of transparency as well as possible unintended consequences. The PCAOB indicates that in general, economic theory argues that disclosure of the name of the engagement partner should be useful to investors and other financial statement users, and studies using data from the jurisdictions where the disclosures are available appear to support the theory. We note that the PCAOB's disclosure of its inspection reports on registered firms, as mandated by the Sarbanes-Oxley Act, provides users with valuable information on the audits of each registered firm. We also note that in our audit reports the lead director (comparable to a registered firm's engagement partner) signs his/her name on behalf of GAO.

In our March 17, 2014, letter we noted that a repository of engagement partner information would not provide the complete information necessary for users to effectively assess audit quality. While such a repository would be useful in helping to assess audit quality, audit regulators, the audit firms' quality assurance processes, and other factors play critical roles in assuring audit quality to financial statement users. We note that on July 1, 2015, the PCAOB issued Release No. 2015-005, *Concept Release on Audit Quality Indicators*, whereby the PCAOB describes and seeks comment on 28 potential indicators of audit quality. Accordingly, consistent with the PCAOB's mission—"… to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports"—we encourage the PCAOB to continue to consider whether the proposal in Release 2015-004 is the best alternative to achieve its stated goals, with the least unintended consequences.

In our March 17, 2014, comment letter we stated that if the PCAOB determines that public disclosure of the audit partner is appropriate, it would be better to include information such as the name of the engagement partner in the shareholder's proxy statement, which may be more relevant to the auditor selection process, rather than in the auditor's report. Consistent with that comment, as the PCAOB considers adopting the alternative in Release 2015-004, it should monitor the U.S. Securities and Exchange Commission's (SEC) request for comments on its Concept Release No. 33-9862 (July 1, 2015), *Possible Revisions to Audit Committee Disclosures*. The release requests comments on, among other, the disclosure of the name of the engagement partner, timely notification of a change in the engagement partner, additional members of the engagement team, other information about such parties, and the location of such disclosures in SEC filings. If the engagement partner's name were disclosed in the proxy statement, shareholders could weigh it in ratifying the independent auditors. To the extent that the PCAOB determines that the alternative in Release 2015-004 concerning disclosure of the name of the engagement partner in Form AP is appropriate, we suggest that the PCAOB also consider including a requirement that the firms timely notify the PCAOB of changes in the engagement partner, for example, through Form AP, and that such notification be publicly available. We believe users would be better served with the information before the audit is performed, or early in the audit process, as compared to after the audit report is issued, which could ultimately lead to diminished user confidence in financial statements.

The PCAOB Release 2015-004 seeks answers to 12 specific questions. We have provided responses to most of those questions in the accompanying enclosure.

We thank you for considering our comments on these important issues as the PCAOB continues its effort to enhance the value of auditor reporting.

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

Enclosure

Answers to Specific Questions Included in Release 2015-004

1. Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?

We believe that disclosure on Form AP, as described in Release 2015-004, should provide transparency benefits. We do not believe that investors or other users would change how they use the information if the name of the engagement partner is required on Form AP as compared to disclosure of such in the auditor's report.

2. Are there special considerations relating to the Form AP approach that have not been addressed in this supplemental request for comment? If so, what are the considerations? How might the Board address them? What are the costs of Form AP compared to the costs of disclosure in the auditor's report?

We have not identified any additional special considerations relating to the Form AP approach.

3. Would disclosure on Form AP mitigate commenters' concerns about liability? Are there potential unintended consequences, including liability related consequences under federal or state law, of the Form AP approach? If so, what are the consequences? How might the Board address them?

We do not provide a response to this question.

4. In addition to the required filing of the Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report? If so, what are those considerations or consequences? How might the Board address them?

We are not aware of any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report.

5. What search criteria and functionality would users want for information filed on Form AP? What additional criteria and functionality beyond what is described in Section IV of this release would be useful? Would third-party vendors provide additional functionality if the Board does not? Are there cost-effective ways to make the disclosure more broadly accessible to investors who may not be familiar with PCAOB forms?

We do not provide a response to this question.

6. Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP? Should the deadline be shorter or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (*e.g.*, 60 days) in the first year of implementation? Should the 10-day deadline apply whenever the auditor's report is included in a Securities Act registration statement, not just in the case of an IPO?

As discussed in the body of our letter, we suggest that the PCAOB consider alternatives so that users obtain the information before the audit is performed, or early in the audit process, rather than after the auditor's report is filed.

7. This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V? If the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficiently clear? Why or why not? Is the definition of control in Section V appropriate? Why or why not?

We do not object to the approach of not requiring disclosure of nonaccounting firm audit participants.

8. Does Form AP pose any specific issues for EGCs? Would disclosure of the required information on Form AP promote efficiency, competition, and capital formation if applied to EGCs? If so, how? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard? Would creating an exemption for audits of EGCs benefit or harm EGCs or their investors? Why?

We do not provide a response to this question.

9. Does Form AP pose any specific issues for brokers, dealers, or other entities? If so, what are those issues? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard?

We have not identified any specific issues posed by Form AP for brokers, dealers, or other entities.

10. Are the rule to implement Form AP, the instructions to Form AP, and the amendments to AU sec. 508 included in Appendix 1 clear and appropriate? Why or why not?

The rule to implement Form AP, the instructions to Form AP, and the amendments to AU sec. 508 appear to be clear, and appear to appropriately implement the PCAOB's stated goals.

11. Are there additional economic considerations associated with mandated disclosure, either in the auditor's report or on Form AP, that the Board should consider? If so, what are those considerations? The Board is particularly interested in hearing from academics and in receiving any available empirical data commenters can provide.

We do not provide a response to this question.

12. Assuming the Board adopts a rule during 2015, would it be feasible to make the requirement, either in the auditor's report or on Form AP, effective for auditors' reports issued or reissued on or after June 30, 2016, or three months after the SEC approves the requirements, whichever is later? How much time following SEC approval would firms need to implement the requirement either in the auditor's report or on Form AP?

We do not provide a response to this question.

MAZARS

WeiserMazars

August 20, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C 20006-2803

RE: Supplemental Request for Comment – Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form – Release No. 2015-004

Dear Office of the Secretary:

WeiserMazars LLP commends the PCAOB for addressing the important topic of disclosing the name of the engagement partner on a new PCAOB form and appreciates the opportunity to provide comment. Given the importance and relevance of this matter, we respectfully request the PCAOB consider extending the comment period for the Supplemental Request for Comment for an additional thirty days. We believe extending the comment period during this time will allow us the opportunity to provide appropriate feedback. Thank you for your consideration.

Please direct any questions to Wendy B. Stevens, Partner-in-Charge, Quality Assurance, at (212) 375-6699 or email wendy.stevens@weisermazars.com.

Very truly yours,

WeiserMazars LLP

WeiserMazars LLP

WEISERMAZARS LLP
135 WEST 50TH STREET – NEW YORK, NEW YORK – 10020
TEL: 212.812.7000 – FAX: 212.375.6888 – WWW.WEISERMAZARS.COM

September 9, 2015

VIA E-MAIL comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington DC 20006-2803

Re: PCAOB Release No. 2015-004 Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a new PCAOB Form

Dear Office of the Secretary:

WeiserMazars LLP ("WeiserMazars") welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (the "PCAOB" or the "Board") *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a new PCAOB Form* (the "Supplemental Request"). WeiserMazars continues to support the PCAOB in its efforts to enhance audit quality in audits of issuers and non-issuer broker-dealers in order to provide investors and other financial statement users increased transparency in financial reporting so they can make appropriately informed decisions as well as providing appropriate information to enable such users to assess the necessary qualifications and competencies of all registered public accounting firms.

WeiserMazars is a firm with over 100 partners and 700 professionals across the United States ("U.S."), an independent member firm of the Mazars Group, an organization with over 15,000 professionals in more than 70 countries around the world, and a member of Praxity, a global alliance of independent firms. Because we are a U.S. registered public accounting firm, and a member of an international network, our perspectives may differ from our international counterparts due to variations in the client population and litigation environment.

Our responses to the Supplemental Request are driven primarily by our position in the U.S. marketplace as a medium-sized public accounting firm servicing mostly small business issuers and non-issuer broker-dealers.

Overall Views

As we previously commented in our response letter dated March 12, 2014 on PCAOB Release No. 2013-009, Rulemaking Docket Matter No. 29, *"Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit"*, we continue to believe that naming the engagement partner and other public accounting firms that took part in the audit and the extent of participation ("Other Participants in the Audit") will not enhance transparency, increase accountability or provide the value perceived by investors and other financial statement users. The ultimate responsibility for the quality of an audit engagement rests with the issuer's public accounting firm, not with the individual engagement partner or Other Participants in the Audit.

WEISERMAZARS LLP
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Audit committees are primarily responsible for vetting the activities of the issuer's auditor, including, but not limited to, the approval of the auditor and the plan for use of other participants in the audit. We urge you to consider the Securities and Exchange Commission's (the "SEC") recently issued Concept Release Paper No. 33-9862, *Possible Revisions to Audit Committee Disclosures* (the "Concept Release") in conjunction with the Board's current rule making process as some of the disclosure objectives in the Concept Release appear to overlap with reproposals in the Supplemental Request. Regardless, we continue to assert that the appropriate information relating to the audit partner and Other Participants in the Audit is readily available to audit committees as part of their responsibilities and public disclosure of this information should only be considered in the appropriate context.

There remains a high risk that incorrect analysis, correlations and conclusions may be reached by investors and other financial statement users from the naming of the audit engagement partner and Other Participants in the Audit being made publicly available which will not be offset by a noticeable increase in the quality of audits.

We offer our insights to certain questions raised by the Board and Staff as follows:

1. **Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?**

   The disclosure on Form AP as described in the Supplemental Request essentially provides the same information as was previously proposed as mandatory disclosure in the auditor's report. The public accounting firm is responsible for the auditor's report and the quality of the audit. We continue to be concerned regarding how investors and other financial statement users would use the publicly available information. While factual information may be provided, there can be no direct correlation drawn upon from the information as to the quality of the audit performed and may result in unwarranted and unsupported assumptions and conclusions about the nature of the audit, the engagement partner and Other Participants in the Audit.

2. **Are there special considerations relating to the Form AP approach that have not been addressed in this supplemental request for comment? If so, what are the considerations? How might the Board address them? What are the costs of Form AP compared to the costs of disclosure in the auditor's report?**

   Aside from our continued opposition to the principles behind proposed disclosures, the Form AP approach makes appropriate considerations related to content. We do believe the frequency and short deadline requirements should be subject to additional consideration. We are not concerned about incremental direct costs of implementation of the Form AP versus the proposed disclosure in the auditor's report.

3. **Would disclosure on Form AP mitigate commenters' concerns about liability? Are there potential unintended consequences, including liability-related consequences under federal or state law, of the Form AP approach? If so, what are the consequences? How might the Board address them?**

   We believe the disclosure on Form AP would only continue to increase the potential liability, particularly with respect to Section 10b-5 class action securities fraud lawsuits, of the named engagement partner and Other Participants in the Audit. We see no difference whether the information is included in the auditor's report or filed with new Form AP. We believe the same potential unintended consequences exist with Form AP as with including the auditor's name in the opinion, including, but not limited to, the potential to incorrectly associate an individual engagement partner with business failures and restatements without consideration of other factors.

4. **In addition to the required filing of the Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report? If so, what are those considerations or consequences? How might the Board address them?**

   We do not support the notion of providing voluntary disclosures in the auditor's report. While we clearly do not support disclosure in the Form AP or the auditor's report, the voluntary option would add to the confusion and unintended conclusions drawn from the method used by auditors to disclose certain information.

6. **Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in case of an IPO) an appropriate amount of time for firms to file Form AP? Should the deadline be short or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (e.g., 60 days) in the first year of implementation? Should the 10-day deadline apply whenever the auditor's report is included in a Securities Act registration statement, not just in the case of an IPO?**

   The timeframe proposed to file the Form AP is unrealistic considering the level of detail requested. Periodic reporting should be considered for types of issuer filings.

7. **This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V? If the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficient?**

   We believe that it is not appropriate to require disclosure of nonaccounting firm participants as previously proposed. We disagree with the adoption of the narrower, more tailored approach described in Section V of this Supplemental Request. Ultimately, the audit firm signing the opinion that is responsible for the planning and coordination of any nonaccounting firm audit participants.

9. **Does Form AP pose any specific issues for brokers, dealers, or other entities? If so, what are those issues? How does disclosure on Form AP compare to disclosure in the auditor's report in the 2013 Release in that regard?**

   Broker-dealers should be excluded from any disclosure requirements whether in the auditor's report or in Form AP. We continue to believe disclosure of the engagement partner's name and information about Other Participants in the Audit is irrelevant to non-issuer broker-dealers.

If transparency achieved by the proposed auditor-related disclosures is intended to give investors more information to make informed investment decisions, we do not understand how the disclosure requirements wholesale apply to non-issuer broker-dealers. We believe an investment decision is not influenced by the introducing broker's ability to execute or introduce an order to a clearing firm. In the case of a clearing firm, it is unclear what value is derived from the naming of an engagement partner or the impact it would have on whether non-issuer broker-dealer's client would conduct business with the non-issuer broker-dealer.

The Board should consider an exemption of all the proposed disclosures related to naming of the engagement partner and Other Participants in the Audit for non-issuer broker-dealers (and smaller issuers). In addition, as it relates to our client base, we are concerned about an unintended consequence previously not mentioned. Public disclosure of certain fee related information may inspire competitors to reduce fees and ultimately have the potential to hinder auditor's continuous mission for improvement in audit quality.

In Summary

We applaud the Board for its continuing efforts to improve audit quality and transparency in the audits of financial statements and the related information. However, in consideration of our issuer and non-issuer broker-dealer audits, we continue not to support the disclosure of the name of the engagement partner and certain information about other accounting firms in the auditor's report or in a new PCAOB form. We remain committed to participating in future discussions with the Board and its staff in finding other ways to enhance audit quality and transparency in financial reporting. As always, we fully support the mission of educating investors and other users of financial statements about the process of auditing issuers and non-issuer broker-dealers and the meaning behind the issuance of the independent auditor's report.

We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Wendy B. Stevens, Partner-in-Charge, Quality Assurance, at (212) 375-6699 wendy.stevens@weisermazars.com), Michael DeVito, Partner, SEC Practice Group and the Manufacturing and Distribution Group, at (732) 475-2119 (michael.devito@weisermazars.com) or Salvatore A. Collemi, Director, Quality Assurance, at (212) 375-6552 (salvatore.collemi@weisermazars.com).

Very truly yours,

WeiserMazars LLP

WeiserMazars LLP

WORKER OWNER COUNCIL
of the Northwest

2800 First Avenue, Suite 254 • Seattle, Washington 98121
Telephone (206) 239-2742

August 31, 2015

Sent via Electronic Mail: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K St, NW
Washington, DC 20006-2803

Re: Rulemaking Docket Matter No. 029: Rules to Require Disclosure of Certain Audit Participants on a new PCAOB Form

Dear PCAOB Members,
On behalf of the Worker Owner Council of the Northwest, I appreciate the opportunity to comment on rules to require disclosure of certain audit participants on a new PCAOB form. This letter is to register support for the comments on this subject submitted today by the AFL-CIO, our affiliates' umbrella federation. A copy of their letter is attached and incorporated by reference in this comment letter.

During the last decade of the twentieth century pension funds sponsored by Building Trades- affiliated unions the led efforts to increase transparency with respect to the ratio of audit-related and non-audit related payments made by companies to their auditing firms. Through a series of shareholder resolutions we also extended adoption and normalization of the corporate practice of submitting public companies' selection of auditors for shareholder ratification. All of these efforts have been aimed at increasing the quality and independence of company audits.

We believe that required disclosure of engagement partners and other participants in audits would further enhance the transparency of the auditing process and would, in turn, enhance the quality of company audits going forward.

We encourage adoption of rules requiring this disclosure.

Again, we thank you for the opportunity to comment on this matter of investor concern.

Sincerely,

Doug Kilgore
Doug Kilgore
Executive Director

American Federation of Labor and Congress of Industrial Organizations

815 Sixteenth Street, N.W.
Washington, D.C. 20006
(202) 637-5000
www.aflcio.org

August 31, 2015

Sent via Electronic Mail: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Rulemaking Docket Matter No. 029: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form

Dear PCAOB Members:

On behalf of the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"), I appreciate the opportunity to comment on the Public Company Accounting Oversight Board ("PCAOB") supplemental request for comment on rules to require disclosure of certain audit participants on a new PCAOB form. The AFL-CIO strongly supports the efforts by the PCAOB to improve audit transparency by requiring disclosure of engagement partners and other participants in audits. The AFL-CIO has supported increased audit transparency since passage of the Sarbanes-Oxley Act of 2002, and we believe the time for enhanced disclosure is long overdue.

The AFL-CIO is the umbrella federation for U.S. labor unions, including 56 unions, representing 12.5 million union members. Union-sponsored and Taft-Hartley pension plans hold $587 billion in assets. Union members also participate directly in the capital markets as individual investors and as participants in pension plans sponsored by corporate and public-sector employers. The retirement savings of America's working families depend, in part, on companies having reliably audited financial statements.

As a matter of principle, the best place for the engagement partner's name to appear is in a signature at the bottom of the audit report. Since passage of the Sarbanes-Oxley Act, CEOs and CFOs have been required to personally sign their financial statements. This certification requirement has bolstered investor confidence in the accuracy of corporate accounting. A similar requirement for engagement partners to sign the audit report will enhance investor confidence in the quality of audits.

Many audit firms have objected that requiring engagement partners to personally sign or disclose their names in audit reports may result in enhanced legal liability under Section 11 of the Securities Act of 1933. However, from the standpoint of investors, imposing Section 11 liability on auditors for material omissions or misstatements is beneficial. Auditors may limit their Section 11 liability by conducting audits with appropriate due diligence, and this will create an incentive for improved audit quality.

While engagement partner signature of the audit report is preferable, disclosure of the identity of engagement partners in the proposed Form AP will provide many benefits for investors. Investors, who ultimately bear the costs and are the intended beneficiaries of audits, should have the right to know the identity of the engagement partners who conduct audits. Likewise, investors should be told the identities of any other accounting firms and non-accounting firm participants who took part in the audit.

Disclosure of the identity of engagement partners and other audit participants on Form AP will create reputational incentives to conduct high quality audits. With disclosure, investors will be able to examine the qualifications and experience of engagement partners and other audit participants. Knowing that investors have access to this information, audit committees will be less likely to approve of engagement partners and other audit participants who have a history of audit failures.

Finally, Form AP disclosure will enable investors to consider the reputation and qualifications of engagement partners and other participants in the audit when voting at annual shareholder meetings. Public companies routinely submit the selection of their independent auditor for ratification by shareholders. These proxy votes provide an important corporate governance mechanism for shareholders to improve accountability by expressing their views on the audit firm selected by audit committees.

Unfortunately, today’s auditor ratification votes are largely symbolic because shareholders simply do not have sufficient information. For this reason, shareholders routinely vote in favor of auditors without conducting any meaningful analysis. According to data from Institutional Shareholder Services for more than 4,000 U.S. annual meetings held during the twelve month period ending June 30, 2015, auditor ratification proposals received on average the support of 98.7 percent of the votes cast.

Providing more information to shareholders about the participants in the audit, starting with the name of the engagement partner, will help make auditor ratification votes more meaningful. This enhanced transparency will not necessarily lead to failed advisory votes. Rather, shareholder scrutiny will result in improved audits in the same way that advisory votes on executive compensation (i.e., “say-on-pay” votes) have resulted in significant improvements to the executive compensation process.

For the purpose of proxy voting, it makes little difference whether the identity of the engagement partner and other participants in the audit is disclosed in Form AP verses the auditor report. What is important is that the information on audit participants is made publicly available. With disclosure, proxy voting advisory services are likely to begin collecting the information as a research service for their clients. The PCAOB should facilitate the dissemination this data in a downloadable format.

Thank you for the opportunity to comment on the PCAOB’s proposed rules to require disclosure of certain audit participants on a new PCAOB form. Investors will benefit from enhanced audit participant transparency. If I can provide any additional information on the AFL-CIO’s views, please contact me at 202-637-5152.

Sincerely,

Brandon J. Rees
Deputy Director
AFL-CIO Office of Investment

BJR/sdw
opeiu #2, afl-cio

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on February 16, 2005 that related to the discussion on the auditor signing the auditor's report which was part of a broader discussion titled "Auditor's Reporting Model." Risk assessment was also discussed during the February 16, 2005 meeting and is not included in the transcript.

The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript. The transcript has not been edited and may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at http://www.pcaobus.org/News/Webcasts/.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

STANDING ADVISORY GROUP

Wednesday, February 16, 2005

8:30 a.m.

The Army-Navy Club

901 Seventeenth Street, N.W.

Washington, D.C.

ORIGINAL

MS. RAND: Thank you.

I see no other comments on this. I will move on to question 5 which should take us to our 10:30 break time and pick up the remaining two questions after break.

Question five is kind of switching topics here on the subject of audit reports, the issue of the identification of individual auditors in the audit report which is something we do not have right now.

Right now the audit reports include the name of the firm. So our question here is should the audit report signature include the name of the partner and second partner signing off on the report or other members of the engagement team. Before I ask for your comments, I just want to mention some of those who were opponents of this approach and ones that are for it.

Ones for it think that including the names of individual signatures would be analogous to a section 302 certification whereby officers and directors of the company are to certify to the accuracy of financial statements filed with the commission, and believe that including the names of individuals would help increase individual personal responsibility for the audit reports that they sign.

Those that are against including individual signatures indicate that 302 was really just put in place because management was attempting to disavow their responsibility with respect to the financial statements. And they argue that the firm takes the overall responsibility, not the individuals; and so by including individuals it could somehow be perceived to limit the firm's overall responsibility for the financial statements.

And they also indicate that providing individual signatures is inconsistent with the spirit of Sarbanes-Oxley and the new standards which strengthen firm-based quality control over individual audits.

So I'm looking forward to comments on this. I see Bob Kueppers?

MR. KUEPPERS: Thanks Jen. We're kind of on a roll with bad ideas.

(Laughter.)

I don't support this particular one. Let me tell why you. I think that the board and audit committee have absolute knowledge and understanding and actually a sense or a feeling of the capability of the individual on the engagement and they do so on behalf of the investors. I think the -- the truth is that the entire firm stands behind the report.

There is differential legal responsibility, frankly, as part of -- you know -- the individual people on the account have different liability profiles in terms of personal assets at risk as opposed to all other partners; but the real point is that the entire system of quality control what is stands behind that opinion. And the entire system of quality control includes the partner, the second reviewer, but what about the national office consultation partner? What about the methodology that underpins and documents the audit?

So I think it tends to limit the importance, frankly, of the firm name when you do that; so I'm not in favor.

MS. RAND: Jeff Steinhoff?

MR. STEINHOFF: At GAO either the Comptroller General, the managing director or director signs the report. Also the name of key staff are listed. Having said that, I don't buy into the premise that that changes how someone behaves. We just do it that way. Whether or not I'm signing it as a managing director, whether a director reporting to me is signing it or the Comptroller General is signing it, I feel the same responsibility for the quality of it.

Also, we view each product as an institutional product; so I feel the same way if another managing director or director from another unit is signing something and I am weighing in on that as a second or third or fourth partner in some cases.

We view all our products as being institutional products. I think it is fine if someone wants to sign it. I think the model we have is perfectly fine. But I think it should be left up to the auditor and see nothing wrong with having a firm sign them because they are all institutional products. I don't think it changes the way one views quality. I feel just as much responsibility if it is signed by someone reporting to me as I field as if it is signed by the Comptroller General whom I report to.

MS. RAND: Wayne Kolins?

MR. KOLINS: From the perspective of the analogy itself, I'm not sure it works because 302 certifications are not signed by the company in addition to the individuals. They are signed by the individuals. From the viewpoint of the audit firm, if the underlying premise of this proposal is that it would cause the auditors to be more careful in doing the audit, I think it may ignore the potential for PCAOB sanctioning of the individuals, for SEC enforcement action against the individuals, for state licensing actions against the individuals. And so the individuals are responsible and I think they know that they're responsible. Bringing in the concurring reviewer doesn't work because the concurring reviewer's responsibilities are not at the same level as that of the lead audit partner.

MS. RAND: Nick Cyprus.

MR. CYPRUS: Well, I guess I have a slightly different view, so I'll lead off.

I believe accountability is important and while I agree that the firm should stand behind its opinions, I don't know as I am responsible for the fair presentation of the reports of management, I believe my auditor is responsible for the fair audit of the financial statements. And as good as firm policies are, and I've said this multiple times, the quality of an audit is very much dependent on the partner on a job. And so when people randomly say well, we're going to get out of this audit firm and get another one, I say you know, it is not about the firm. It is about quality of the people you have on the job.

So I believe it is important as management takes accountability and signs so should the auditors take accountability for their report and sign even though the firm's name is there. So is theirs. Whether it makes a difference or not, I don't know. But I can't see it hurting.

MS. RAND: Cynthia Richson?

MS. RICHSON: I too, believe that the partner should sign the letter. It kind of surprised me when I first focused on this issue in joining the SAG because of course being a lawyer, we would never think of signing a legal opinion without having the name of the individual partner that actually authored the letter. So I really think this is probably the only profession where I have ever run into this where you can issue this important report in the generic name of a firm that could be a global firm. So you don't even know which office -- who was involved in it, if for nothing else if for informational purposes.

And I really think trying to make this

akin to the Sarbanes-Oxley 302 certification is a red herring. Certainly it gives an impression of an ownership issue when an individual actually has to put their name on the report. But Sarbanes-Oxley is very clear. It just applies to individual certification by the CFO and the CEO. So I don't know that that argument has a lot of merit. But I would certainly vote in favor of answering yes to this question.

MS. RAND: Don Chapin?

MR. CHAPIN: An eon ago I was a partner in Arthur Young & Company and used to sign reports. At that point we signed the firm's name in handwriting and it appeared in the issued reports. I say that only because when I took my pen in hand, I had a sense of personal responsibility that I doubt I would have had had it just been some printed name. Secondly, when I moved to GAO -- contrary to what Jeff Steinhoff said -- when I had to not only sign -- I had to sign my name on the report, and that really focuses responsibility.

And it is the essence of responsibility that in this kind of a complex thing, that the coordinating partner who would be the one that would sign this report, needs to access all the information he has. He needs to feel personal responsibility when he does -- when he signs that report; and I think that it would be helpful to have. In my opinion, it would be like Arthur Young & Company by Donald H. Chapin, general partner. I think that ties it up pretty damn well.

MS. RAND: Arnie Hanish?

MR. HANISH: I actually agree with Don and Nick and others. I think the accountability issue is critical. I think having the individual sign their name as a partner of a particular firm but have their individual name is probably most critical. We find behaviors within our company where we're asking people to sign their name. You get different behaviors when somebody has to put their name on something. And we'll never know whether or not the partners at Arthur Andersen would have had a different perspective on the Enron account if they would to have had to sign their names but I very much support the individual names being shown on the auditor's report. Along with the firm's name.

MS. RAND: Bob Walter?

MR. WALTER: I would just echo what Arnie said. I think that -- and Don, I think that's an excellent idea. When you get right down to it, step back for one second and ask yourself this: The board and the commission already are going to know who the lead partner is on that account. So who are we talking about informing here?

What we're really talking about is informing the public and -- you know -- frankly, I think that the public perhaps isn't going to care that much, but I think that the partner who puts his or her name underneath the firm's name is going to care a lot. I know if I were signing -- and I have to say I haven't seen many law firm opinions that have an individual name on there, but I have seen an awful lot of lawyers that have signed firm opinions and suddenly their memory gets very short when it becomes convenient, about how it was that that opinion was arrived at.

So I think it is an excellent responsibility and I think this whole idea of analogy to 302 is just absolutely dead wrong. There should not be any analogy drawn whatsoever and anybody who has done that I think is misstating the issue here in terms of personal responsibility.

So --

MS. RAND: Bevis Longstreth?

MR. LONGSTRETH: Thanks. The practice in New York at least among the large firms is pretty consistent in that only the firm name is signed, and going back a ways, it wasn't always that way. There was a more varied practice when I started in New York in 1961. I think the practice evolved because the most established well known firms just signed their names. It was a sign of the firm reputation; and that the firm was behind the opinion.

And, of course, we aren't talking about revealing a fact that isn't immediately ascertainable. That's not the issue. So I think the only issue that's being discussed here, the only plausible reason you would want to regulate in this area is that it might improve the quality of the audit.

I search in these meetings and in the materials and even vicariously yearn for at least a tiny little spot where the regulators might accord to the profession some unfettered discretion. If they don't, I don't think it is going to be a profession anymore.

And so I have a shocking, bizarre idea: Why not allow the profession to decide for itself how it signs its opinions?

If accountability in a firm of any stature is really improved because the partner's name is on the opinion, I think the firm needs some work. But anyway, maybe not. But why not let the firm decide because the fact is there is vicarious liability for the firm. It cares enormously about making sure each of its partners does the best possible job, because that partner carries with him or her the possibility of exposing the firm to disastrous liabilities.

Is there anybody who could decide this question with greater intense interest than the firm itself?

MS. RAND: Thank you. It is 10:30. I have six other cards up. So I vote for taking our break at 10:30. We'll resume at 11:00. When we come back we'll continue with the cards that are up and take your comments. So 11:00.

(Recess.)

MS. RAND: If you could please start heading back to your seats, we would like to resume in a couple of minutes. Thank you.

Okay. We'll resume our discussion on auditor's report and identification of the auditors. I do want to say for those listening in on our web cast and joining us for the risk assessment discussion, we will be starting that around 11:30. We will be continuing the discussion on auditor's report from now until 11:30. And because of that, I just note for all of you, we are interested in your feedback. We have got six cards up for this discussion on question number 5. And then we have two other questions. So I want to make sure we get to everyone's remarks. Just if you can try to be concise or as concise as possible so we that can hear comments from everyone, I'd appreciate it.

Continuing with our discussion on this question, Zabi Rezaee? You can lead us off.

MR. REZAEE: Yes, ma'am. I will be very concise. I believe including the name of the lead partner in the auditor's report shows the professional commitment to more accountability after the Sarbanes-Oxley Act and also would help to restore investor confidence and public trust in the financial reporting and especially in the audit report and credibility of the audit report. So I'm in favor of including the name of the partner and signature in the report.

MS. RAND: Ray Bromark?

MR. BROMARK: Thanks, Jennifer. I think the way you laid out the pros and cons in your paper was very well done. I'm still scratching my head a little bit to better appreciate why some folks believe the current process is broke, and I guess if there's a view that the engagement partner does not take his responsibility seriously or isn't accountable or those ideas need reinforcement, I think we probably need to get to the root cause. And I don't think whether an individual signs his or her name to the opinion or it's the firm's name is the root cause, gets to the root cause of that.

I would, I guess stepping back a bit, I guess I don't really feel strongly one way or another, but I can tell you that when I sign my firm's name, I'm thinking as much if not more about the responsibility I have to all of my partners as well as the responsibility I have to myself.

And then lastly, I ask the question: Is this a good use -- is taking on this issue a good use of everybody's time and do we have so many more important issues we ought to be addressing that that's maybe where the focus ought to be, instead of on this issue.

MS. RAND: Lynn Turner?

MR. TURNER: We've in the profession debated this issue for at least the last 30 years; and people keep throwing it out and it goes away and then they throw it out again and it goes away.

It seems the reason it keeps coming back is because the customers say they would like to see that person's name on the report. And whereas Ray turns around and says you know, I don't understand what is broken, I guess my comment is having been a partner, you know, all you're doing is asking me to do is put my name on the bottom, maybe with the firm's, or whatever. It takes me two seconds to do it and if so, then if the customers want it, give the customers. Let's quit debating and wasting our time on this and we can be done with this very easily. I actually do agree with what we heard around the table from Ernie and -- Arnie and Nick and others that, I do think it will have a positive impact on accountability.

I also note that as a financial expert on an audit committee, I'm asked to throw out my name and other people are asked to throw out their names and certainly the accounting firms I think supported the knows of establishing financial experts on audit committees and throwing out those names.

So in a way it is kind of what is good for the goose is good for the gander here. And I actually do have a problem with an auditor saying it's okay for you to be named as a financial expert but we don't want to name who the auditor partner is on the audit. That, I come back to the question: Why?

MS. RAND: John Morrissey?

MR. MORRISSEY: Yeah. I think it's an example you're piling on. I take the notion of having someone sign their name below the -- is certainly a good idea. How could it not instill a degree of accountability at the individual level? And to Lynn's point how can an investor not appreciate the fact that someone is willing to put their name on the line and sign an opinion? I don't see any downside to it.

In thinking back to what Don's comments were about the olden days when we had to sign opinions manually, I remember doing that. I personally felt it that was my name on there. I know I spelled it wrong because it was the name of the firm, but it was me, my personal reputation on the line. And I think that's a good thing that you feel that way. And I don't think there is any reason why you shouldn't feel that way today even though you have mechanical signatures on opinions.

So I'm with Lynn. I think it takes two seconds to do it. And if it helps only like 1 percent of the cases where someone really hesitates and says I don't want to put my name on that, that's a good things for investors. That's where I would be on it.

MS. RAND: James Campbell.

MR. CAMPBELL: I think I would concur with what some of Bevis's comments earlier. This strikes me as a philosophical issue. But I'm going to break ranks with my colleagues here and I want all the assets and all the professional skill of the firm applied to my audit without any ability to disclaim or distance myself from that professional skill or those assets.

So I'm in favor of the firm's signing off on the audit, but I do agree with Bevis, maybe this is best left to auditors and issuers to decide and some latitude there might be appropriate.

MS. RAND: John Fogarty?

MR. FOGARTY: Just observe a couple of things here. One is I think it is very common practice in the firms today and has been for a long time for the partner and the manager to sign report records, dockets, different things that they're called which has the behavioral effect that many people have mentioned here.

Second thing is that the practice of auditors personally signing the reports is widely done in Europe. It is done in Japan as well. I guess if there was going to be a consideration of doing this, perhaps the board ought to look into the experiences in those jurisdictions.

MS. RAND: Gerry Edwards?

MR. EDWARDS: Jennifer, you asked to us be brief. So just briefly I think there is value to having the firm sign, but I would support some additional disclosure about the names of the partners that are responsible for the audit.

I'm persuaded by the same types of issues I think a number have raised around the table that this could have some on the overall audit quality over time. So I would support that.

MS. RAND: Looks like there are no other comments on this, so then I will move on to question 6 dealing with part of an audit performed by other independent auditors.

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on June 21, 2007 that related to the discussion on the auditor signing the auditor's report which was part of a broader discussion titled "Panel Discussion - Engagement Team Performance." Related parties and accounting estimates and fair value measurements were also discussed during the June 21, 2007 meeting and are not included in the transcript.

The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript. The transcript has not been edited and may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at http://www.pcaobus.org/News/Webcasts.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

Standing Advisory Group

Thursday, June 21, 2007

9:00 a.m.

The Army and Navy Club

901 17th Street, NW

Washington, DC

ORIGINAL

Joe Carcello.

MR. CARCELLO: I'll make a comment about this and then address my other comment. I think these questions are similar to what we've been talking about already. So to specify that the audit partner has to do some of these tasks and to provide no flexibility for specific circumstances, I think would probably be a mistake.

It is hard to disagree that the audit partner should be involved in considering fraud risk. I think that's pretty obvious. Imagine a situation where the audit partner had responsibility for accessing fraud risk, but if a senior manager on the engagement was a CPA, CFB, had prior experience with the FBI, wouldn't he or she be a better fit to take the lead role?

At the end of the day, the partner has responsibility. But in that particular case, the senior manager may have better expertise. It may make sense for him or her to take the lead role there.

The second point that I make, which is not really teed up in any of the questions, I'm curious if you've even batted around a discussion of this:

We're talking about engagement team performance. Lynn correctly points out situations where he's sitting in Broomfield, Colorado and recognizes problems with published financial statements and you question how does that happen.

At the end of the day I think the real concern here is how you make engagement team's performance better. One thing that I know has happened in some foreign countries -- I'm far from an expert on this, others may know more -- in some foreign countries the partner has to sign his or her name alongside the firm's signature.

And if you look at the behavioral literature, there's some evidence to suggest that that additional level of personal accountability, public accountability has an effect. What would be interesting to look at -- I don't know if you have the capability to do this -- although you have the ability to commission research -- is there any evidence that when foreign jurisdictions change the regime from a situation where the partner didn't sign his or her name to where they did, is there any evidence that audit quality improved?

And if there's evidence that audit quality improved, it is probably worth thinking about here in the United States. If there is no evidence that audit quality improved, then you probably let the idea drop.

MS. RIVSHIN: Lynn Turner?

MR. TURNER: On the second question about -- based on size and all, I think the answer is yes. I think there is a big difference between auditing a General Electric and the skill sets that it takes amongst the engagement team to audit that type of multinational broad based company, versus someone that's auditing a $50 million, $20 million a year company. It is just different. The skill sets and the coordination and the administration and the ability to keep it together on those two are different.

Sometimes it is a small company that's harder; and sometimes it is a large company. But I actually don't think engagement teams move back and forth in between those two environments all that well.

I think we saw some of that in the first year of the internal control testing. People weren't able to move up and down in company size and tailor it the way it should be.

So I think this needs to be dealt with. Maybe the best place to deal with it is in the firm's own manuals themselves. But I think there has to be recognition of if you have two different skill sets when you're managing the audits of those two different sized companies, they just aren't the same and the issues and complexities vary dramatically.

I would certainly agree with or tee up the issue Joe has. I personally think that it does make a difference from a behavioral aspect, and that's really what we're talking about here, because we're talking about performance if a partner had to put their own name on the report or not. And I think if any partner had a qualm about putting their own name on a report, they ought to be thinking about whether they're willing to sign with the firm's name.

And I'd certainly encourage you to think about that. I'm a firm believer the firm partner ought to be willing and should put their name on a report to --

MS. RIVSHIN: Wes Williams?

MR. WILLIAMS: I agree with the statement Lynn made. I have a little different take on it. I think the audit standards need to be scaleable based on the size and complexity of the entity but not so much based on the size of the audit firm itself.

I'm going to pick up on a theme that is going to come through here. We have to look at the competency of the audit teams and the competency of the firms themselves. I think these are accepted by the board in the quality control standards they have adopted which address the firm competencies as well as the partner in charge competencies.

So it kind of goes back to the whole theme of getting the right person on the right job.

MS. RIVSHIN: Bob Tarola?

MR. TAROLA: Just on the point Joe and Lynn were making about the psychological difference when signing one's personal name and signing a firm's name. I used to sign off in the name of a firm. Now I'm certifying financial statements under SOX in my personal name. I would like to believe that I would have -- that it wouldn't have made a difference, but it does. It is psychologically different.

MS. RIVSHIN: Jeff Steinhoff?

MR. STEINHOFF: I'm in an organization where we sign off own name. If I'm signing my own name, I check everything over a hundred times. And if I'm sending it out for the Comptroller General to sign his name, I check it over 200 times.

I think it does make a difference, although I don't think for any one moment that signing a firm name means that the partners that are doing that aren't trying to do a very good job. Because the firm name is very important to them.

So I'm not sure at what level it makes a difference; and I think they still bring that professional pride and they still feel they're responsible and accountable for it.

MS. RIVSHIN: Vin Colman?

MR. COLMAN: I didn't want to let that go. I appreciate those final comments. It may affect behavior. I don't know. I haven't done a study. I have no idea.

I understand there's common practices in Europe and whatever. I can assure you, I signed opinions for 25 years. Here you're signing that opinion, all right, part of it is your firm. But part of it is if there's an issue, I mean, everyone knows who signs that opinion. Look at any enforcement release, look at -- when there's an issue, okay, even a PCAOB review, it is very clear who was responsible for the work that is performed, ultimately responsible for the work performed on that engagement.

So to say that writing it will have a significant change in an engagement partner's behavior, I mean I'm not sure. It may. But I would tell you I think you'd be not fully understanding -- I think particularly in the last five years -- as Randy said, there's been a significant change in the last five years with respect to the accountability with respect to what the engagement partners feel and do. I just don't want that to go unsaid.

MS. RIVSHIN: Jeff Carcello?

MR. CARCELLO: I agree with Vince. The overwhelming majority of partners take the responsibility of signing the firm's name very seriously. All I was suggesting was that it might be worth thinking about.

To the extent there is data available in foreign countries, it might be worth considering. I'm not suggesting for a moment that most partners are signing the firm's name without being comfortable they are doing the right thing.

MS. RIVSHIN: Any other comments? I know Randy you had your tent card up at one point and put it back down.

MR. FLETCHALL: Only because Bob Kueppers raised the issue of quality control. I think in this whole area we talk about what an audit partner or the lead partner is responsible for. Do you have to figure out in a large firm, there are quality control systems in place. That partner should be able to rely on those or else we will have very inefficient systems.

When it comes to in a large firm, coordinating a large audit around the world, you can't expect that lead partner to have trained everyone on that team, which you can do if you are in a small firm doing a handful of audits.

No one is saying the lead partner is not in a sense very responsible for that audit opinion that he signs, either internally or on an opinion that would have the firm's name also; but you really do have to allow that partner to rely on the firm's quality control system around many things like independence, training, competency. You just couldn't have each person do it. Keep that in mind if you want to have a prescription.

John, when you read ISA, you can read that and say this sounds like the partner is supposed to do this. Sometimes the firm does it. At the end of the day, both the firm and the partner are going to be held responsible if there's a problem. You might as well recognize that.

MS. RIVSHIN: Any other comments?

Zoe-Vanna.

MS. PALMROSE: Since we're beating this issue to death, I'll add my thought. That's from the users, the investors in the marketplace. One of the aspects of -- that I had always thought with the firm name being on the opinion was that's what it meant from a user perspective, the investors cared that it was the firm. So another model has to actually ask what is the usefulness of that information to the marketplace also.

MS. RIVSHIN: Lynn Turner?

MR. TURNER: I'd turn around and challenge you on that, Zoe-Vanna.

MS. PALMROSE: It wouldn't be the first time you have.

MR. TURNER: And I can guarantee it

probably won't be the last.

We sit here and tell public companies it makes a difference to them. They used to sign with the general signoff page on a 10-K and on the Qs. Now we've got them doing this very specific certification, and all the firms sitting around the table here supported those CEOs and CFO having to certify to the accuracy of the financial statements.

I find it astounding that firms would say for public companies and a CEO and CFO they have to do this because we need their butt on the line. But for us as audit partners, it doesn't make a difference. That's just unfathomable that you think people act two different ways like that.

I think absolutely if we're going to force the CEO and CFO to put their name on the line, then we ought to be turning around and putting the audit partner's name on the line. If they have a problem with doing that, then I as an investor, I do want to know that because that does give me informational content.

MS. RIVSHIN: Zoe-Vanna?

MS. PALMROSE: The question is not whether your name is on the line or not. It is what it means, the mechanism by which it occurs. It is important to recognize these are two different settings; and what a signature means and what it signals. All I'm suggesting, Lynn, is it is probably important to think about the signals aspect of this, not just the laying your signature on the line per se.

MS. RIVSHIN: Damon Silvers?

MR. SILVERS: I found this last exchange very informative. I was sitting here trying to figure out what this debate is about. Now I know.

It seemed to me the issues teed up here were issues that would be very difficult. I mean if people aren't doing their jobs, don't understand what they are, how are you going to write a standard that is going to fix that? Is it true they don't understand what their jobs are?

I was baffled by it. Now I understand what it is about. It is about whether or not you sign a person's name and the firm's name or just the person's name, or just the firm's name. It strikes me that really this can't possibly be something people are seriously arguing about.

It is useful from the perspective of investors of, not just from a punitive kind of approach but from an informative approach, to have both. The signaling is that A, there is a firm here and that the person who was signing it is signing it with the full backing and support of the firm and the investor can rely upon the firm and its own procedures and that there is an actual human being that one could -- if one wanted to talk to -- about what this means.

That strikes me as sort of plain and simple and shouldn't be that terribly controversial. But again I thought I was missing something for a while. Maybe I'm still missing something.

MS. RIVSHIN: Jeff Carcello.

MR. CARCELLO: There is another potential benefit of having the partner sign that just occurred to me. There is extensive literature in academia on expertise. It was alluded to this morning by Bill

Messier.

The earlier work on expertise basically found that firms that do more work in a particular industry do high quality audits. As everyone knows, audits are done by audit teams, even though the firm signs it. More recent work done primarily like Gerry Francis and some of his colleagues looks at the quality at the local office level and finds that there's higher quality if the local office has more expertise in whatever the industry is of the particular client.

The really interesting question would be is the quality higher; and as we presume it would be if the engagement team -- primarily the partner -- had more industry expertise.

If partners have to sign, it would not take very long and there would be a database of every public company at least that they serve; and you could start measuring expertise at the individual partner level in industries.

And then you could track whether or not that translated into higher audit quality.

MS. RIVSHIN: Dick Dietrich?

MR. DIETRICH: Like Damon, maybe I'm beginning to understand this issue. I wanted to refer back to a point Bob Kueppers made. I don't mean to be critical of your point. I think he raised the point -- which is important -- about the idea that once in a while it is possible that an audit partner could get off the reservation with respect to his or her firm.

If so, what is the responsibility of the firm? How do we build mechanisms to minimize the likelihood that that could happen?

The discussion about how many people are going to sign this report, one possibility would be to think about the idea that the partner is signing the report on his or her behalf as well as the firm's, but the concurring partner also could sign, representing that the firm's quality controls are in place and that the concurring partner is really signing on behalf of the firm, almost against the partner.

That's a very provocative idea, so it

probably isn't worth much. But we have six minutes. I thought I'd say something.

MS. RIVSHIN: Sam Ranzilla?

MR. RANZILLA: I have no idea what we're talking about now.

I can't speak for all of my audit partners. I surely can't speak for any that aren't in my firm. But I can speak for myself. I can tell you unequivocally that when I sign KPMG, and if I sign my name below it, it would make no difference. It would not change my behavior one iota if my name went underneath KPMG and I believe that most of my partners feel the same way.

To answer Dick's interesting -- it gives some -- context around the quality control system. I think it is important to keep in mind that any quality control system has a cost/benefit relationship. Just like a company's internal control system cannot from a cost/benefit perspective ever support absolute assurance around the quality of the information; and the same is true with our system; so we have built -- again I can only speak for my firm -- we believe we've built a quality control system that provides reasonable assurance about the quality of our audits.

Does that mean we are going to be 100 percent accurate, that we will never have some audit issue? Absolutely not.

We could do that. We get out financial statements within a decade. And we -- there would no problems with that. But that would be the kind of -- that's the counterbalance, just like a company goes through when they look at their internal controls. They make cost/benefit analysis. The same thing is true with respect to quality control systems at accounting firms.

MS. RIVSHIN: Gaylen Hansen?

MR. HANSEN: I appreciate the comments, Sam. I'm the same way. When I sign my firm name, it means something to me. But I think most of the people sitting around this table and the people that we deal with that feel that way also. Unfortunately, there's others out there that it might mean more if they were signing their personal name.

I think the concept merits maybe exploration by the board.

I wanted to talk also, Vin mentions we always know who does what on the audit. Some of you may know I'm involved with state boards. We also have disciplinary matters. It is interesting when firms get in trouble and we bring them in. We see a lot of finger pointing. "I only did this. That person was responsible for that."

And you know, I think a certain minimum level of who is doing what might make some sense at some level, anyway, because that should never happen. We should always know who's responsible and the individuals involved should know what their responsibilities are.

MS. RIVSHIN: Craig Omtvedt.

MR. OMTVEDT: I would like to comment regarding Lynn's earlier comment. I can tell you as the CFO who has to sign financials, I have never yet had the view that the engagement partner should also have to sign. I would tell you that candidly, my own view is that this conversation is really a discussion of form over substance.

MS. RIVSHIN: Leroy Dennis.

MR. DENNIS: I want to point out -- again like Sam, I can't speak for everybody, every firm's quality control procedures. As it relates to signing the report, I agree it would make no difference in how I sign an opinion.

And I also would point out if you go into our methodology, there are literally hundreds of places where every engagement partner on the team signs. They initial every work paper. They sign each section twice. They sign an overall quality control review form. They sign off on significant adjustments that are past. They sign off on internal control areas, and an overall conclusion.

So there are umpteen places in a file where people sign. I don't think adding one more to the 10-K makes a big difference.

MS. RIVSHIN: Gaylen - you have anything else?

Thank you very much for the insightful discussion we just had. I also want to thank Bill

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on October 23, 2008 that related to the discussion titled "Panel Discussion – Signing the Auditor's Report." Feasibility of audit quality indicators, proposed standards setting activities, an emerging issue – audit considerations in the current economic environment were also discussed during the October 22-23, 2008 meeting and are not included in the transcript.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (PCAOB)

Standing Advisory Group Meeting

9:01 a.m.

Thursday, October 23, 2008

Army and Navy Club

901 17th Street, N.W.

Washington, D.C.

COPY

JENNIFER RAND: All right. It looks like the majority of people are back. So hope everyone had a good break, and the others will join the table, I'm sure, momentarily.

Our next discussion is on signing the auditor's report, and this topic relates to another recommendation from the Treasury Advisory Committee. In this case, the Treasury Advisory Committee recommended that the PCAOB should consider mandating the engagement partner sign signatures on the auditor's report.

This discussion is not new to the SAG. We brought this discussion to the SAG back in 2005. But we thought it was worthwhile to bring it back, one, because the Treasury did consider this and just finalized this recommendation in the October 6, 2008, report. And also the European Union's Eighth Directive recently went into effect in law that requires the engagement partner's signature on the report.

Last time, we did not have panelists. So this time, we brought panelists in to assist the SAG in providing additional input on this topic. So I'd like to introduce them now, and if you could just raise your hand?

The first panelist that will be speaking is Janice Hester Amey. Janice is a portfolio manager in the global equities corporate governance asset group at the California State Teachers Retirement System, also known as CalSTRS. CalSTRS is a public pension fund that serves the California public school teachers. The fund has over 800,000 members and beneficiaries and $148 billion in assets.

The next is Bob Kueppers. Bob, can you raise your hand? I'm not sure everyone knows you.

[Laughter.]

JENNIFER RAND: Bob -- obviously, we know Bob. He's a member of the Standing Advisory Group. But Bob also is the deputy CEO and vice chairman of Deloitte. So we've asked him in this case to provide his views as from the auditor's perspective.

And then, finally, Jean Bedard. Jean, welcome.

Jean is a professor of accountancy at Bentley University. It was Bentley College as of last week. So it's correctly on the slides here, Bentley University. Jean is -- she teaches financial reporting and auditing, and her research interests include audit quality, audit firm portfolio risk management, and corporate governance.

So we're very grateful for their participation in this discussion today. I've asked each of them to spend about 5 to 10 minutes presenting their views on the subject. And then after that, I'd like to open up the discussion to the SAG, and we have two discussion questions that were keyed up in the paper.

One is the pros and cons of mandating the signature of the engagement partner in the auditor's report, which flows from the recommendation from the Treasury. But the second expands that recommendation a little more broadly, and that is pros and cons on including signatures of other members of the engagement team or of the accounting firm, such as the second or concurring partner, review, the quality control partner, the firm CEO, and others that may or may be appropriate.

So, with that, I'd like to open, turn it over to our distinguished panelists to present their views. And Janice, you're first. Thank you.

JANICE HESTER AMEY: Good morning. My name is Janice Hester Amey, and I'm a portfolio manager, as Jennifer said, in the corporate governance unit at the California State Teachers Retirement System.

California STRS serves the retirement needs of California's public school educators K through 12 and community colleges and their families. As of June 30, 2008, we had 813,000 members and benefit recipients. And actually, when I sent the information to Jennifer, we did have $148 billion, but now we have $130 billion.

[Laughter.]

MALE SPEAKER: Are you sure?

JANICE HESTER AMEY: Well, you know. CalSTRS is the largest teachers retirement system in the country, and the second-largest employer-based plan in the U.S.

The fund currently has 48 percent of the portfolio dedicated to equity securities. Domestic equity securities account for about $45 billion, and international public equities account for another $20 billion. CalSTRS, similar to other major institutions, holds equity in thousands of public companies. So we have broad long-term exposure to equity markets across the globe.

Thank you for allowing me to be here today to comment on the Department of Treasury Advisory

Committee's report on the auditing profession. Although this is a very comprehensive report and there are many recommendations in it that CalSTRS supports, I'm here to comment on the committee's recommendation, also known as Recommendation 6, that the PCAOB undertake a standard-setting initiative to consider mandating that the engagement partner of the audit firm sign the audit report.

As the PCAOB and the Standard Advisory Group are keenly aware, the integrity of financial statements is important to all investors. Institutional investors rely upon the integrity and efficiency of the markets due to the fact that large portions of our portfolio are passively invested.

The role of the audit in our capital markets is critical, as it serves as the most significant independent verification of the accuracy of financial statements. We don't have to recite all of the high-profile companies that have failed in recent years and the associated accounting scandals here today. But the resulting losses from these failures and scandals have hit investors hard and have served to undermine confidence in our capital markets.

For obvious reasons, many institutions, including CalSTRS, have put resources and effort toward strengthening the role of the auditor, increasing independence, and improving the accountability of the audit function to investors. Broadly speaking, Broadly speaking, whatever can be done to improve the confidence of investors in these audited financial statements and, by extension, the markets should be done.

CalSTRS believes that requiring the engagement partner to sign the audit report is consistent with our overall objective to improve and maintain the quality of audits and increase the accountability of auditors and their work product -- the audit to investors.

The simple step of requiring the audit partner to sign the audit report will, we believe, increase ownership of the audit by the audit team, a concept that will certainly help investors gain confidence in the quality of audits.

We appreciate the fact that the PCAOB and the

SAG have had substantive discussions over the past several years regarding the auditor's reporting model, and we understand that many members support a proposal to require the audit partner to sign the audit.

We're in good company on this issue. The International Auditing and Assurance Standards Board came to the same conclusion in 2005, stating that audit firms should assign responsibility for each engagement to an engagement partner and that the engagement partner should take responsibility for the overall quality on each audit engagement to which that partner is assigned.

And now our own U.S. Department of the Treasury, the European Union's Eighth Directive, and Arthur Levitt, former SEC commissioner all the way back to the 2000 review of the audit profession, recommend the same prescription. The engagement partner should sign the audit report in order to enhance transparency and accountability.

The Advisory Committee's report calls it -- excuse me. The audit firm's roles are crucial to the public markets here and around the world. The Treasury

Advisory Committee's report calls it "noble." We agree with the Treasury's report that the signature should not impose any greater obligations or liabilities than what already exist for the engagement partner as a member of the audit firm.

When the investment staff at CalSTRS prepares prepares materials for our trustees at CalSTRS, our CIO requires that the persons preparing the document sign it, as well as the director of the unit, and finally, the CIO signs off on the document. These are all manual signatures, and this step does make each signatory read the document, proof the document, question and verify the document.

Certainly, this is a quality control measure. But more importantly, it is an accountability measure, an assurance feature for our trustees designed to give them comfort that they are looking at all of our best efforts to provide them with the information they need to oversee the fund. We think it's simple, elegant, and direct.

To close, CalSTRS has long been concerned about the integrity of financial statements and has consistently applied resources to the infrastructure of financial reporting and its effect on markets. We went through an extensive review of our portfolio in order to determine the companies that do not put their audit firm up for ratification by shareholders, and we are now petitioning the SEC and the exchanges to make this this a valid item requirement and a listing standard.

We understand that we have a fiduciary duty to monitor the operation of the audit committee and the performance of the auditors, and we want a universal way to achieve that review. We would like the auditor report that is included in the proxy statement to include the engagement partner's signature as well.

Shareholders do not have visibility to every audit firm employee that worked on the company's audit, nor should they. It is far more efficient, transparent, and in the interest of accountability to have the engagement partner's signature on the report. We believe that Sarbanes-Oxley contemplated your authority over these standards in the original legislation and that you now have both cause and opportunity to mandate it. It does not appear to us that anyone other than the PCAOB can mandate this standard.

Thank you for allowing me to present the views of CalSTRS on this important issue.

JENNIFER RAND: Thank you, Janice.

Bob Kueppers?

ROBERT KUEPPERS: Thanks, Jen.

Janice, very, very well put. Very articulate. And on behalf of the profession, we appreciate, as a profession, the support of many of the investor groups around the importance of the auditing function and the need to strengthen it. I certainly don't disagree with that at all.

I just want to make sure that the confidence that you mentioned that's put in the audit process is not misplaced in any way, that it be rooted in reality. And I think for purposes of getting a dialogue, I want to make sure that we present the other side of the issue from the audit firm perspective because this is an issue where I don't think it's that difficult to find common ground.

But there are some implications that I

thought I would review. And on balance, I'm not a proponent of this idea, but I think there are probably ways to achieve the same objectives that you mentioned, Janice.

Let me -- let's go back just a few years to some of the audits that led to the passage of Sarbanes-Oxley. And at that time, I think the public at large -- not only the investing public, but the public at large -- got a look into auditing in a way that probably had not been the case for many, many years prior to that. And we learned a couple of things.

One of the things we learned was that clients, companies -- big companies like Enron and the others -- should be clients of the firm. They should not be clients of an office. They should not be clients of a person. These big, complex clients demand the attention of the entire firm, and if you give too much authority to a level below the firm, I think you can get into some trouble.

We also learned that it's dangerous when an office or a partner can effectively override or ignore the firm's position on a technical matter. The firms have, since that time, and frankly, prior to that as well, worked harder than ever to reaffirm and embed the consultative culture that we encourage all of our partners to participate in.

I know in our firm, and I think I speak for others, there is no partner in our firm that has the authority to sign the firm's opinion, whether it's with his name or the firm's name, with accounting in those financial statements that differ from a position the firm has taken through its process. That would be grounds for removal from the firm, if you were to sign an opinion against the conclusion the firm had reached.

I also think it's important to keep in mind there is a difference between a person, in other words, a practitioner, and then the firm as a whole. And sometimes I analogize to law firms because we're all sort of used to working with law firms in some form or fashion. And I choose to pick on David Becker for that.

I mean, I could pick up the phone and talk to David about a legal issue and have a nice conversation. And then I'd say, "Well, David, I know you're on the clock. So I guess I have two choices. You could send me a chatty memo from David Becker with some of your thoughts around this. But this is a really big issue really big issue for us, and I really want an opinion of your firm."

I want you to go through the whole process to give me Cleary Gottlieb Steen & Hamilton opinion, and I know that the product that comes out of that process will be very different than just having a conversation with David.

We all speak with our clients every day about technical matters. But at the end of the day, sometimes they'll say -- I'll say, "Well, do you want to know what I think, or do you want the position of our firm?"

And depending on the issue, we go through our process, our consultation process, at the end of all that, of course, they get the position of the firm. I don't think we should confuse the authority of a partner versus the weight of the whole firm behind the issue.

Accountability is important, and one of the things I would observe is that in so many ways, in so many ways, our partners are absolutely accountable. First, they're accountable to the firm itself, through our own internal inspection process, through our own quality rating system that drives compensation for the audit partners. There is no question that the individuals are accountable to the rest of their partners.

The regulators, of course, including the PCAOB, have inspection regimes. They have enforcement programs. And at the end of the day, if someone is investigated, whether or not a case is brought, it could, in fact, be the end of their career.

And of course, on at least a quarterly basis and maybe twice that much, the intimate relationship that the audit committee has with the actual engagement team and as sort of agents of all the investors, monitoring the quality of the people, the progress of the audit, the resources brought to bear are firmly creating a situation where the partner who does have that quality responsibility is accountable to its client, the audit committee.

I do agree with Larry that the ultimate client are the investors. The question in my mind is always the tension between how much should go directly to investors and how much should be managed through the audit committee process representing the investors? And that's not an easy question.

And finally, I think the partners are accountable individually to the private claimants in litigation. It's certainly not difficult for a regulator or in litigation to get the names of the people. That's always at the ready when there are problems after the fact.

My real worry in part is that I don't believe this would improve audit quality. I think the other motivators of audit quality, including compensation, including the accountability points I just mentioned are, by far and away, the most effective way. To think that because I'm going to sign my name, I'm really going to do a better job when I have my entire career, my net worth, my reputation on the line in any event, I don't think it makes much difference.

I think signing your name and signing the firm's name is equivalent. In fact, I think the hand might shake a little more when you're signing your firm's name because at that point, I sometimes say you're bringing in the boat with you, depending on the size of your firm, all of your partners and all of their families. And by your authority to commit the firm to the opinion that you're rendering, in many ways, I think that has even more serious tone and tenor to it as you sign -- as you sign that report, in my case, as Deloitte and Touche.

I will point out that I've got multiple nametags. I have Robert J. Kueppers. I have Robert J. Kueppers, Deloitte and Touche, LLP. And I think there's a third one that just says Deloitte and Touche. But I don't know where that one is.

The point is that that's a serious matter, and I know that our partners take it very, very seriously.

I have some thoughts for the board on how to deal with this. I think that you're not going to hear any new arguments today. I think that when we talked about it in February of '05, most of those things are the same as now. There have been a few developments in the EU, and the Eighth Directive has sort of memorialized what for decades, if not longer, has been the practice in Europe.

But the statutory auditor and that custom of having the individual sign is, frankly, rooted in a long history in many of the countries of providing fiscal or tax advice and having an accountable person. It's a little different than on a quality measure, but it's been memorialized now for the future for all the 25 or 27 EU states as part of the world going forward.

But what I'd say to the board is do some additional research to determine the level of support for this individual partner signing idea. I think that we've had good articulation from academics, investors, and, to some degree, the firms. But I haven't heard a whole lot from the issuer community or the audit committee community yet. So you probably should solicit some ideas from those groups.

If you choose to propose a change, I think that's fine. But I predict that the letters will give you the same arguments you're probably going to hear in our dialogue today, and I think if you look at the letters already on file with the Treasury process, you're going to see the same sort of give and take, the same pros and cons.

But my real urging is if you ultimately choose to move in this direction and make such a change, I would ask you not to justify it as a substantive change, but an optical one. One that there's pressure to do, that's fine. If that's where the world's going, let's do it.

But it should not be framed as something that will be a significant change in audit quality or something that people will perceive something's different now, and I'm not sure anything will in substance be different.

Let me leave my comments right there, and let's hear from Jean. And then we can have our discussion.

JENNIFER RAND: Thank you, Bob.

Jean? The floor is yours.

MS. BEDARD: All right. Thank you.

I guess there's a reason I'm sitting in the middle here today between my two colleagues. My remarks are based on two perspectives. And first, as the academic on the panel, I see my role as providing a viewpoint to this policy based on research to the extent that research is there.

And the second is my views are also informed by my experience as one of the three-member tracking team for the American Accounting Association to the Advisory Committee on the Auditing Profession.

Okay. So let me start by considering the two purposes of this proposal, and these were implicit in what Janice and Bob said, but I'd like to make them more explicit. They are no doubt related, but useful to consider them separately.

First, transparency, of course, implies that an underlying process becomes visible. In this context, of course, we are thinking that knowing the identity of the audit engagement partner could be useful to market participants in assessing relative financial reporting quality, as this would provide some indication on how the audit was conducted.

So let's call this the "detective effect," all right? That knowing who runs the engagement reveals something about the process. That is useful to investors in making financial decisions.

Now, in addition to a detective effect, this policy is also intended to have a preventive effect. Publicly identifying the partner in charge of the engagement or multiple people -- that's also on the table -- is intended to improve financial reporting quality by increasing accountability of the individuals in charge.

The intent here is that, through time, financial reporting quality will rise as greater accountability changes behavior among any engagement partners who are not now meeting the standards set by the PCAOB and their firms.

Okay, now, so is there any direct evidence that engagement partner's signature affects financial reporting quality? For instance, you've got countries that have done this and countries that have not. So research could have compared financial reporting quality in similar countries before and after implementing this policy, although I admit it would be tough research to do. However, I was unable to find any reports of such types.

Thus, unless I've missed something, there appears to be no direct evidence on whether financial reporting quality is actually affected by engagement partner's signature or whether investors' perceptions of financial reporting quality are affected, and that's a related but, of course, distinct issue.

So there are no reported studies. Well, we're also unable to tell, as kind of a sidebar here -- because there are no studies, we're also unable to tell whether engagement partner signatures have some of these negative effects that are listed in the briefing paper. For instance, would it mislead investors about responsibility of individual partners versus the firm? Kind of relating to Bob's comments here.

Would it reduce the number of firms willing to audit risky public companies? Would it reduce the numbers of people willing to enter the profession? We really have no evidence on this. I think I'm starting a research program here to address some of these issues. It looks like there's opportunity.

But all right. So since there's no direct evidence on financial reporting quality, let's take a step back and consider the theory as to why this policy might achieve its intended effects and consider the research that already is out there in the context of the auditing profession that tests this theory.

Okay. So why would accountability change behavior? According to social psychologists, accountability is being answerable to an audience. Which implies you're identified to that audience as the producer of a work product. Now the engagement partner's signature proposal just expands the audience. Obviously, the engagement partner is visible to people inside the firm, to the audit committee, to the PCAOB. But this proposal expands the audience to the investors in general.

So now when an individual is accountable, there is an increase in self-critical thinking, which is thinking harder about the decisions you must make and possible threats to the quality of your response based on your intended audience. So that's the theory. What evidence is there in the auditing context?

context?

There are a couple of studies. Most find that when auditors are accountable, the effort involved in the decision increases and the quality of the decision outcome increases also. And just a couple of examples here real quick.

Auditors under accountability produce more conservative and less variable materiality judgments when accountable. Use more qualitative factors in arriving at materiality judgments.

Another study on analytical procedures, auditors under accountability plan more audit tests, focus more testing on possible misstatements as opposed to nonerror causes perhaps of fluctuations.

And a third study found that the effects of accountability are stronger when audit tasks are more complex and when participants are more knowledgeable. And here today, of course, we're talking about a partner in charge in the most complex level. So that means, I guess, that it should apply at that level.

Thus, some research shows that accountability works in inducing greater care and better decisions better decisions within the context of the firm's chain of command.

Now these results are probably not surprising to any of us, right? Because accountability in terms of identifying the persons who perform the various steps in the audit function, it's long been a part of quality control in audit firms. It's just part of the culture.

So we don't have any direct evidence on whether those results, these studies done on associates and seniors, would apply to engagement partners if they were identified to investors. There's no direct evidence on that that I know of, all right?

So I guess then my next thought was then why would this not apply in the current context of engagement partner signatures? And I guess I could think of two reasons why it might not work here. And one of them, and this is I think basically Bob's point, is that current accountability structures are already sufficient.

Current quality control policies in firms that audit public companies, PCAOB inspection process already induce such a high level of quality that there's no incremental effect of the engagement partner signing. PCAOB has insider knowledge of this, and they share some and they don't share other things. But the publicly available information today suggests there is room for improvement, and I'm sure the bar will rise as we go into the future.

A second reason that this policy might not work or accountability might not work in this context is that public identification of the partner would not have the standard accountability effect. In fact, it would have the opposite effect. And I think Bob referred to this. It's also in the Institute of Chartered Accountants in England and Wales report that like the partner would be less willing to consult with others if only the partner, the lead partner were publicly named.

It's a concern, I think -- to me at least, and we can discuss -- that it seems this effect could be reduced by adding the names of others in the chain of command, which is one of the things we need to talk about today. So it's not this go-it-alone, Enron sort of effect, but rather, people in the direct line up to the top of the firm participate in the signature.

All right. Well, to summarize the research here, accountability has been shown to produce more conservative judgments among auditors, more testing. These results are consistent with improving financial reporting quality, but they consider lower-level staff, not partners. The logic is compelling, but the evidence is indirect.

So now we consider these thoughts further. My time is limited, and I've already gone over. So let me come to my second point here, which is relating to my experience on the ACAP Tracking Team.

In our response to the committee, we recommended that the engagement partner sign the firm's name, as well as his or her own. But we also noted later on in our response to the firm structure and finances section of the report that we kind of viewed these recommendations, this family of transparency recommendations as part of the package that would potentially involve some liability relief and improve and improve the sustainability picture. And of course, that didn't happen for a lot of reasons.

But it does affect how I feel at least about implementing some of these proposals that otherwise seem valuable. What could be done? Well, the Center for Audit Quality mentioned in their letter to the ACAP that a Safe Harbor provision might be enacted for partners who sign.

If, in fact, the liability isn't changed, then it just seems to me it shouldn't be a big step to explicitly state that. Whether that would protect people or not, I don't know. So that is one possible way of a middle ground here perhaps for relieving some of these concerns on the part of the firms.

So I believe I have gone over time. So I'll end here and look forward to the discussion. Thanks very much for your attention.

JENNIFER RAND: Thank you very much, Jean.

MS. BEDARD: Thanks.

JENNIFER RAND: Jean was just talking about the liabilities at issue, and the paper, the SAG briefing paper did not really touch on that. But just a few observations. I spoke to our general counsel's office for any feedback they have, and just three points. And I don't want the focus of this discussion this morning to really center on that because that is an issue, but we are looking at the signing of the report.

But three observations. One, whether the signing of the report would subject the partner to increased risk of liability is a complex issue. And it will require analysis of Federal and State law, including the analysis of a Supreme Court decision earlier this year.

Second point is the Treasury Advisory Committee did indicate in its report that the committee notes that the signature requirement should not impose on any signing partner any duties, obligations, or liability that are greater than the duties, obligation, and liability imposed on such person as a member of an auditing firm. The committee noted that this language is similar to Safe Harbor language the SEC promulgated in its rule-making, pursuant to Sarbanes-Oxley Section 407, for audit committee financial experts.

committee financial experts.

And then, third, third point here is if the decision is made by the PCAOB to move forward with the proposal in this area, we will certainly need to give further consideration to potential liability issues. And of course, this is something the board may wish to seek public comment on before adopting any final rules.

So, for purposes of this discussion, really we're looking at the benefits, looking at the committee's recommendation and which is encouraging us to mandate the signature. Recognizing liability is an issue that will require future study by us. And if we were to move forward, we would certainly consider that issue and likely seek comment on that point.

But otherwise, we'd like to open up the floor as far as the benefits of this proposal as it is. So the first discussion question relates to seeking feedback on pros and cons of including the signature of the engagement partner on the auditor's report. And certainly, in your remarks, you may just have comments on that. You're certainly welcome to ask any follow-up ask any follow-up questions from our panelists -- Bob, Janice, and Jean.

Okay. Bob Kueppers, since you're a double duty, we'll give you first chance.

ROBERT KUEPPERS: And I have two signs. So I should absolutely be selected first. Thank you.

I was just going to pick up on what some of Jean's comments. One of the areas I think is actually ripe for some research because you talked about research that might have been dealt with, sort of seniors and assistants, but I don't know if anyone has really taken a look at the partners in the firms. And it could be firms of any size.

The changes in sort of the levers or the motivators of quality have really changed massively over the last years. And it used to be the threat of civil litigation, which might be way down the road, would be one of those things that would keep you focused on quality.

But now it's so much more immediate with PCAOB inspection, with quality ratings that impact this year's compensation or next year's compensation, or the or the fact that if you had bad PCAOB review, that's not a career-enhancing move. And so, why not research with the actual partners some of the hierarchy of things that cause them to stayed focused on the business at hand and doing a good job?

Because I think that whatever snapshot you would have taken 10 years ago would look very different today, and usually it's left to people like me at meetings like this to explain what I see and what I hear. But I think some research directly with the partners would be very beneficial.

JENNIFER RAND: Thank you.

Ernie Baugh?

MS. BEDARD: Oh, could I respond just a second?

JENNIFER RAND: Yes.

MS. BEDARD: Yes, I stand ready to do that research. It's very difficult to get partners. They're busy.

ROBERT KUEPPERS: I'll give you 1,000 partners. Don't worry about it.

MS. BEDARD: This is on record, and it's webcast. Thanks, Bob. Call you in the morning.

JENNIFER RAND: Ernie?

EARNEST BAUGH, JR.: Well, we can start your research right now. I'm sure that a lot of people have put a lot of effort into this project. However, as was intimated by Bob, I think that effort is very akin to rearranging the deck chairs on the Titanic. I do not think that whether or not you have a partner sign the audit report along with the name of the firm is going to make one bit of difference. If it does, he shouldn't have been a partner to begin with.

We take that signature, that firm signature extremely serious. If my name was on it as well, I wouldn't take it any more serious. I think -- I echo Bob's comment that if we do something along this nature, it should not be couched in -- as a means to improve audit quality. I do not think that will happen.

JENNIFER RAND: Thank you.

Jean, did you want to respond or --

MS. BEDARD: No, I wanted to ask Ernest then how would you couch it? If not as an audit quality move, what -- Bob said "optical" I think was the word you used? How would you?

EARNEST BAUGH, JR.: If it will improve investors' faith, perception of the reliability of financial statements, I think that may be beneficial. But you just have to realize that it's not going to be a real improvement to audit quality.

JANICE HESTER AMEY: I actually don't think the recommendation suggests that it will improve audit quality. I think it focuses on transparency and accountability and the perceived value of the report to the market participants as a whole. And that's what we are concerned about.

We're also concerned that in Sarbanes-Oxley, there is a suggestion or a recommendation that you rotate the partners on audit firms or on audits I think every five or seven years. And this just isn't visible to us as shareholders. We've adopted the much more what we think is disruptive guideline of rotating the whole firm. And I think if we had the visibility of the partner's signature, it would be a lot easier to carry out that suggestion.

JENNIFER RAND: Okay. Harold, did you have your sign up? That name tag is blocked by your water pitcher. Cindy Richson then. Sorry.

MS. RICHSON: Thank you.

First, I'd like to thank the panel. I thought the comments were excellent. And in particular, I think, Janice, I wholeheartedly agree with your position on encouraging the PCAOB to undertake standard setting in this area.

I'd just like to make a couple of comments. First of all, I thought it was interesting, Bob -- and not to pick on you -- but that having the audit or the engagement partner's signature versus the firm's signature is the equivalent and the analogy you made to law firms, whether you're the firm name or the partner.

And having been both an attorney in private practice and in-house hiring outside counsel to represent the company's interests, you actually do both. You hire the firm for their reputation, their brand, just like you would hire the audit firm. But you also hire the individual partner or associate or whoever you're working with because of their expertise, the value that they bring to the engagement. So I don't necessarily agree that it's equivalent.

And the thing that I find really interesting because the firms, the audit firms are required in the UK to file these annual reports, I just -- not to pick on a firm, but I happen to have the KPMG UK annual report from 2007, and there are disclosures on the legal structure. And so, when you say "the firm," I'm not quite sure exactly what you're referring to because in this report, the KPMG report, it states that "KPMG LLP is the UK member firm of KPMG International, a Swiss cooperative that serves as a coordinating entity for a network of independent member firms that provide audit, tax, and advisory services to a wide variety of public and private sector organizations."

Each member firm is a separate and independent legal entity and describes itself as such. So I think, if for nothing else, it would add clarity, especially as I hear that more audit work is being being outsourced to offshore locations such as India, et cetera. If for no other reason, having the engagement partner sign the auditor's report is informational at a minimum, and I do think while there may be no direct evidence, and I encourage -- I don't know that further study and research is warranted on this issue. It's rather straightforward. It's about enhancing transparency.

And in terms I think, Bob, you mentioned that you're not sure what the level of support is, but I understand -- and Damon, correct me if I'm wrong -- I think all the investor comment letters to the Treasury recommendation were unanimously supportive of this particular recommendation. So I think clearly it has significant investor -- institutional investor support.

And if for no other reason, if the EU, in its wisdom, has passed the Eighth Directive making this a requirement, we've heard about international convergence for the five years I've been on the SAG, and it would harmonize U.S. standards with European standards, and I think that also would be very beneficial.

So, greater transparency. It would incent greater accountability. It would be informative. It would help clarify which part of "the firm" was involved in the engagement, in charge of it. And there's the report in 2005 from the Institute of

Chartered Accountants of England and Wales looking at this and talked about the benefits.

So the rotation issue that Janice mentioned -- this is something we haven't talked about yet -- would highlight the specific responsibilities that the audit engagement partner has for the quality of the audit. Again, informational.

So I thank the panel. I think this is an important issue, and I hope PCAOB moves forward on it.

JENNIFER RAND: Thank you, Cindy.

Gary Kabureck?

GARY KABURECK:: Thank you.

I'd like to give a view of financial statement issuers on this subject, and jumping to the end, I actually don't support individual partners' names going in the document either as a signature or as as a byline in the 10-K or whatever.

As a signing officer, I have to admit I don't feel extremely strongly about that because I see my name on all these documents, and I say, well, if my name's in it, well, why not the partner's? But so it's not what one I would lay on the tracks on, but I actually don't support it. And I'll tell you why.

First, I think is putting the individual person's name in it, I think someone makes audit partner in a firm, whether a small firm, medium-sized firm, or large firm, the thing is they think we're detracting from their professionalism. I don't know that they need to see their name in lights to do a good job, to make their best professional judgments, to engage experts in the firm, or however else they choose to do the audit.

I don't -- they think we're taking away from the skills and the competencies that got them to the position that they're in at their firms today.

So I think there's plenty of reasons, both inside the firm for its own management processes, and I think, to some extent, they've already earned the right, you know, to get where they are, and I'm not sure this enhances it a whole lot. But as a preparer, I'm worried about a number of unintended consequences that I think will happen out of this, and I'm talking as a preparer, as an issuer.

First of all, I think if this is going to result in extra costs. There were a lot of accounting and auditing changes out there that are increased in cost. But imagine yourself as an audit partner going to an audit committee or the chairman of your company saying, "I need to increase my audit fee because I'm signing this thing."

And so, the glass is half full argument is that there's more accountability and greater focus and stuff. In the glass is half empty argument is that you want to do more work because they're afraid not to do more work. And I just think that would be a dull conversation if we're trying to pass along extra work in the form of fees. However, be that as it may, there's lots of reasons why audit fees go up or they go down.

However, let's talk to a couple of things that could happen over time that issuers would be asked to answer questions on. So if we -- what would happen if the audit partner left the account early? They got promoted, or they decided to early retire. Or what if they left the account because of a client service issue or an internal discipline issue unrelated to the client?

I think the financial statement issuers have to be prepared to respond to a question from someone, "Why did this person leave your account before the five-year window?" And it's one thing to say, well, the person got promoted. It's another thing to say he was disciplined on something unrelated to us, and every reason in between. I don't think issuers should be put into that spot of possibly having to give that answer.

And it also might be dull to say, "Well, you should ask the firm why the person left early." I think you have to have an answer. And sometimes the answers you won't mind giving. Sometimes you will mind giving them.

And then another unintended consequence could could be if your partner says something controversial either in a speech or at a SAG meeting or they send a letter to another standard setter, and as the issuer, you might be is that how that partner is approaching your account or your audit? Are those the judgments he's making on yours?

And again, I think you have to have an answer for that, other than "no comment" or it's "we can't answer that" or "we don't know." Those answers don't really work. So, again, I think the unintended consequences is you have to have an answer for it.

And again, sometimes you might want to give the answer, but again, you're commenting on the activities and actions of people that don't work for you, and that's just not a good spot to be in all that often. So I think, again, I wouldn't lay on the tracks on this one to keep their name out of it, but I think that's a view sort of from the financial statement issuer point of view.

We absolutely view that we hire the firm and all the firm's resources is I think -- certainly I think all large companies would probably feel that way. way. I don't want to talk for small companies.

Thank you.

JENNIFER RAND: Thank you, Gary.

Janice, I noticed your card up. I didn't know if you wanted to respond to that?

JANICE HESTER AMEY: Not necessarily to him. I wanted to follow on what Cynthia was saying. Is that okay?

I -- Cynthia and I share something in common, we both read a lot of proxy statements and Annual Reports. And I brought the -- part of a proxy statement from a company called MGP Ingredients -- I'm not going to read the whole thing to you, so don't worry.

[Laughter.]

JANICE HESTER AMEY: But, on this section, "Independent Public Accountants," it starts out by saying, "BKD, LLP was previously the principle accountant for the company. On September 17, 2008, the Audit Review Committee of the company approved the dismissal of BKD, LLP, and the engagement of KPMG, LLP as the company's independent registered public accounting firm. KPMG has informed the company that it completed its respective client evaluation process on September 18th," and then it goes on to give a long description of all of the arguments that it had between -- with BKD.

As an investor, when I see BKD as an auditor -- as an audit reporting firm on a company that I own, I would be interested in knowing whether I should be happy at whoever was the engagement partner, or if I should be apprehensive whenever I see BKD as the firm auditing a company that I own.

And so I think a lot of issues that the last speaker brought up, I think they can be dealt with, with asterisks and Safe Harbor protections, but I think it's still the perception of value that's created for the investor, and the perception that someone is taking responsibility for the audit, and the ability to identify with the engagement partner, still outweighs the other concerns.

And I don't think we're suggesting that the audit engagement partner will do a better job, for having his name in lights, or having his name in lights. I think the intent here is more for the investor than it is for the audit firm.

JENNIFER RAND: Thank you, Janice.

I just -- Janice, you were pointing out proxy disclosures, and I just want to point out that proxy disclosures or rules regarding that do not follow, you know, the purview of the PCAOB, that's the SEC. And certainly, there was a related recommendation, related to proxy disclosures, but we don't control that. You know, our focus this morning is on the audit report, and whether or not the signature page should be --

JANICE HESTER AMEY: Right, but we'd like to have that in the proxy.

JENNIFER RAND: Right.

JANICE HESTER AMEY: Yeah.

JENNIFER RAND: Okay, Ted White?

TED WHITE: Thank you.

First, I think investors recognize that this is not a silver bullet but, in listening to the conversations here, first, I mean, I thought the panel discussion was good, and Janice articulated the points very well, but we're making this a much more complicated issue than it needs to be.

This -- I do believe that this is about audit quality, this has, I think, every opportunity to just raise the level of ownership, I do not see that there is any significant downsides, I have to respectfully disagree with Ernest and Bob in, while individually that may have very little impact on how their perception of their responsibilities may be, and that's just a test to their level of professionalism, from an investor's perspective, across the universe of auditors, this has the potential to add some benefit. And I just do not think that the potential that it would maybe bring some hard questions to issuers or to audit firms is necessarily a negative thing.

I mean, we spent yesterday afternoon and this morning talking about trying to identify audit quality measures, and how we'd bring transparency to them, some of the questions that are going to come through this are directly related to audit quality issues. And a little bit of transparency on this issue, I think, is a good thing.

So, I would just strongly support it, I think you're going to find fairly unanimous position from investors, that this just appears to be a good thing. Again, not a silver bullet, we understand that, but very little downside.

JENNIFER RAND: Thank you.

Damon Silvers?

DAMON SILVERS: Yeah, I want to sort of add to what Ted said, and -- with a little more -- and add some more detail to this observation.

When this -- when the Treasury Committee adopted this recommendation, it was viewed, I think, purely as a disclosure item, not as an item that would, in any way, alter the professional and legal obligations and rights. And there were enough people on that committee who were very anxious about not expanding litigation risks for audit firms and audit partners, and who were quite knowledgeable -- perhaps more knowledgeable than I am -- about exactly how those legal -- how that legal structure functions.

I'm pretty confident that this change is nothing more than an additional item of disclosure. Much as -- to analogize to the SEC world for a moment -- that, for example, when a 10K or S1 is filed with the SEC, a lawyer's name is on that -- is on the cover page of that document. Not just a firm, but a name. I don't think that changes the question of the relative liability of that partner, in any respect.

The -- what investors are looking for, here, and I think what we believe will, a little bit, perhaps, drive audit quality, is to make it a little bit easier to have that interaction with that partner. And the truth is, is that it's not impossible today, you can call up the firm and find your way to that person, but that just makes it a little easier.

At the same time, you get that little bit of focus on the job being done that Jean and Janice were talking about.

I might -- I thought I'd make a broader point about this, which I think is connected both to this matter, and to the matter we were discussing in terms of audit quality indicators. I don't think it's plausible to make assertions like, we don't know what audit quality is, or we don't know what audit quality indicators are, or that there's something enormously disruptive about identifying who is in charge of the audit. And that's not to say that each thing doesn't involve a certain amount of care, right? And thoughtfulness. I mean, I think that obviously you'd want to be sure that in having the person sign the -- having the individuals named on the signing line, you are not reducing, in any way, the accountability of the firm as a whole, that you were not increasing -- you were not altering the set of legal obligations, that was not the intent.

Just as with the audit quality indicators, and be thoughtful about the type of indicators, how they're designed, and so forth, how they're presented.

If we are sidetracked into discussions that seem like they really don't have a strong intellectual basis, and seem to be, instead, designed to forestall action -- for the purposes of forestalling action, itself -- I think the consequences of that are not going to be that there will be no action. It just will happen elsewhere. And to use -- our Presidential candidates are fond of discussing -- with something other than a scalpel. And without the thoughtfulness, and perhaps, sort of consensus-based process we have here.

And that troubles me. I mean, I think that the Treasury Department -- the Treasury Committee's process was as broad-based as this one, and came up with these items on a pretty much a unanimous basis. The only diss -- I believe the only dissenter was my friend, Lynn, who thought that there was nothing wrong with the report, but simply didn't go far enough.

So, it's disappoint -- again, I say, it's disappointing to me that we seem to be engaged in a kind of holding action around some of these items, rather than figuring out, in a consensus-based way as we did in the Treasury report -- how to do them in an intelligent, constructive way.

JENNIFER RAND: Thank you, Damon.

Liz Gantnier?

ELIZABETH GANTNIER: I guess being an auditor everybody's going to immediately assume what side of the fence I'm on, on this topic. I would just like to put a couple of things in context -- it may or may not may not be useful, but in a smaller firm, for example, it's not the audit partner that accepts the client, it's the firm that accepts the client. It is not the audit partner that agrees to continue with the client, it's the firm that agrees to continue with the client.

It is not the audit partner who schedules the engagement, it is the firm that schedules the engagement, pulling the right people, perhaps, off other engagements to ensure that the mix of personnel is being utilized properly. And to somebody else's point, it is not the client who decides who the partner is, it's the firm who decides who the partner is, and I would hope that you're happy with the selection of the partner, but it is us trying to serve the client the best way, to answer all of the criteria properly, that it's the firm that selects the engagement partner best suited to dispatch the duties of the firm, and it's an audit partner who is signing the firm's name.

We're all in this together, because we've chosen this client together, we've agreed to continue the client together, and in my opinion, it sort of takes away from that concept of it being the firm's client, as opposed to the partner's client.

This is not a name that you can't figure out pretty quickly, particularly in the smaller firm, and as for accountability, I can assure you that partner signatures, concurring partner signatures, consulting partner signatures, manager signatures, all the way down to individual staff signatures are all over the place, and that the PCAOB has mandated engagement completion documents that, in no uncertain terms, identify who the engagement partner is with overall responsibility, who concurred with the release of the opinion, and who was the overall engagement in charge.

So, I'm not really pointing out whether I'm for or against this, I'm just simply saying that we certainly have other measures in place, and if part of the goal of this is audit quality, you say that knowing who the partner is will aid in your understanding of the relationship with the firm, I would say -- I don't know how you're going to -- I don't know how that is. I don't know how, if Liz Gantnier's name is on the opinion that you have any knowledge of who I am, and knowledge of who I am, and then that leads us to all of yesterday's conversation about audit quality measures, of competency, other hours that I may be maintaining in my book of business, et cetera. That those measures, perhaps, are a better gauge of who the audit partner is, rather than the name.

So, thank you.

JENNIFER RAND: Thanks, Liz.

Joe Carcello?

JOSEPH CARCELLO: Yeah, let me second some of the comments that Damon made earlier, and I would point you to a few things. I think one of the first things we should look at -- Bob, earlier, said we've heard from academics, we've heard from investors, and we've heard from auditors on this, and we need to hear from others.

So, I refer you to page 10 of the briefing paper, and I'd say, who was in favor? So, let's look who's in favor. Don Nicolaisen; now who is Don Nicolaisen? He is a senior partner in one of the Big Four, was the Chief Accountant of the SEC, and chairs a bunch of Audit Committees. So there we've just hit three bells, right? Senior auditor, regulator, Chair of Audit Committee.

Also, an audit committee member, Mary Bush, goes on public record in favor of this recommendation. An investor advocate, Paul Hagger, who heads up, or a leader at Capital Management and Research, one of the largest mutual funds in the world.

So, I think those are pretty strong arguments in favor. So, that'd be my first point.

The second point would be -- a number of people have argued it won't change behavior at all. And I agree that at the margin it probably will have a small effect. But as Jean said, accountability is being identified. And by signing, you're identifying yourself to a much wider audience. You're identifying yourself -- not just to investors, but to the financial press, and the world.

Anybody who follows auditing will never forget the name of David Duncan. His reputation is ruined forever. And knowing that your name is going to be picked up by the Wall Street Journal and Business Week, and Forbes it -- I think, at the margin, it could margin, it could potentially effect behavior.

I think it also provides better information to investors and capital markets participants. Because if I know who signs every audit opinion, and I'm looking at an engagement, generally, who the partner is on the engagement's more important to me than the firm. What I'll do, is I'll run Compustat on every single engagement -- we'll pick on poor Vin -- that Vin has ever been the audit partner on, once we have a long enough time series history, and I'll look at earnings management on those engagements, I'll look at restatements, I'll look at fraud -- I'm sure there wouldn't be any fraud, Vin -- I'll look at going concern reporting, if he has any bankrupt clients -- I'll look at all of those metrics -- right, Jean? That academics love. So, that gives me better information to help make a decision.

Now let me just quickly comment on something that Gary and Liz said. Gary made a comment about one of the unintended consequences that he's worried about, is greater audit fees.

And with all due respect, Gary, investors are are pretty much, as Cindy said, unanimously in favor of this. And I would point out that it's their money, not the company's money, not management's money. And so, if investors are in favor of it, recognizing that it may cost more money, that's a decision they're making.

Elizabeth made the point that it's the firm's client, not the individual partner's client. But most of the research overwhelmingly finds that it's much more important to investors and to Audit Committee members, what's the composition of the audit team, rather than who the audit firm is.

And so I think it's both. I think it is the firm, but I think it's also the individual partner.

JENNIFER RAND: Thanks, Joe.

Lynn Turner?

LYNN TURNER: I think this is certainly about behavior at the end of the day. I think that someone -- when someone has to sign their own name, rather than someone else's name, it just flat-out sharpens the focus. And I think that's probably a good thing. And I think that can only contribute to audit quality, and audit quality, and not detract away from it.

And we've heard earlier today about how, when people go and select an auditor, the number one thing is looking for the experience and depth of industry experience of that partner. And while certainly you get all of the resources of the firm behind that person, anytime anyone goes out for evaluation of an auditor, the number one thing that comes up is, who is that audit partner?

And while you're getting the firm, most

importantly, you're getting that audit partner. And that audit partner, the manager and the senior, are the ones that make the difference. And you can have a good firm, but if you've got a lousy audit partner, you're probably going to have a lousy audit at the end of the day. So, I think putting that person's name on it -- and we do have the CEOs, and we do have the CFOs sign these statements now. And we know that at the end of the day, it isn't just those two people that turn around and make those financial statements accurate, it's all of the people working behind them, and all the controls that are going into it. So the notion of, notion of, don't put a focus on one name, just because that person doesn't do it -- we've already done that -- we've done that with the CEOs and CFOs, and we do it to establish some level of accountability. And I think that's probably a good thing, as well. And as far as identification of the partner, the A-CAP report does recommend that in the proxy it be disclosed as to who the partner is.

And if you go and look at the report that Bob's firm puts out on Societe Generale, you'll find the partner of -- the name of the partner, and an address and phone number for how you can get them, the only thing isn't there is, perhaps, the home -- home phone number. But all the information is laid out there, and as an audit partner, you go to the public meetings in front of the stockholders of all of these, and you hold yourself out then, so there's no reason not to name.

And some people do bring up the liability issue, but that's -- that's a red herring. Whether or not -- if I'm not a partner on an engagement, whether I, or not, I sign my name, doesn't change my liability. liability. I am on the hook for that audit, I know I'm on the hook for that audit, regardless of whatever name I change.

And Gaylen, maybe, can chime in, but whether or not I sign or not, in my State of Colorado, if I do a bad job, Gaylen's going to come after me.

So, I think this liability is just one more red flag. And in fact, when I go into a court, regardless of whether I'm with a firm or not, if one of Bob's partners goes into court and files an expert witness report, that partner signs in their name in that court -- he doesn't sign in the name of DT. So there are instances, already, where we have to go on, on the line with our name and establish our accountability for the work that we've turned around, and do.

And then, the notion that if I have the partner sign, he wouldn't consult -- I can't even believe that question would be brought up. Because you know the firm has a requirement that you consult on these things whether or not I sign my name is never going to enter into whether or not I would consult or not. I'm just flat out going to go up the ladder, because I'm one of the partners, that's what the partners have said I need to do, and I'm going to turn around and go up.

And so I think what we hear is somewhat disingenuous from the firms. They turn around, they say, "Well, I voted for this, and I support it," but then I'll give you the thousand and one reasons as to why you shouldn't do it. And I think the firms either need to decide they'll support it or not.

And quite frankly, I think one, to adopt this thing, should you adopt it, and I hope you will, I think a year down the road this will, for all practical purposes, be a non-event. And all you will probably have done is really got the partners to focus on it, and you will have given -- as the report calls for -- greater transparency to the investors, and you probably would have established more accountability through that transparency. And I think that is very good.

As far as questions about, should a CFO have to answer a question as to why there's been a change in in the auditor, of course. Is it an uncomfortable question? Well, if it is, it is. But, you need to be able to tell your shareholders why, in those situations, there has been a change. If there's been a change, because of disciplinary action, would that be of interest to me, if I'm voting on the auditor? Of course it would. And you know? Those are things you just have to deal with. Trying to keep that hidden, and not transparent, is what gets us into trouble and the type of messes that we're in, currently, anyway.

So, I think this transparency and

accountability would be excellent, long past-due, and at the Treasury Committee I think just, literally, every investor letter we got in from the investor community said, "Go for it."

JENNIFER RAND: Thank you, Lynn.

I'd like to -- Lynn was just touching on other individuals being included in the report, in his remarks, and this is something we also want to get feedback on, too. So -- and the first time we discussed this, there -- it was really, kind of a running out of time, and I do not want that to happen today.

So, we'll continue going through the cards, and we'd also like your views on the second question which is pros and cons of including the signatures of other members of the engagement team, or the firm, such as the second partner, quality control partner -- Lynn was talking about the firm CEO and others.

So, I would like your feedback on both.

Bob Tarola?

ROBERT TAROLA: Thanks, Jennifer.

My comments are from the perspective of

someone who used to sign a firm's name, and someone who currently signs his own name, as a certifying officer.

I actually agree -- from an issuer's perspective, we're hiring a firm, and not a partner. However, I'm -- what I'm hearing is a profound lack of confidence and trust in the system. And even though I, personally, it doesn't matter to me if the firm and the partners' signatures are on the opinion, I think if it adds to the level of confidence and trust in the system, it's probably a good thing. I think anything we can do, professionally, as preparers, auditors and regulators to do that, will be beneficial for all of us.

JENNIFER RAND: Thanks, Bob.

Gaylen Hensen?

GAYLEN HENSEN: I'm not going to repeat -- I'll try to avoid repeating some of the comments that have already been made, but as an audit partner, I've always felt like the buck stops with me, and therefore, I'm not uncomfortable, personally, with signing my name in any report that I take the final responsibility for, and no one else.

On Lynn's comment about the expert witness -- that is true. I've testified many times, as I'm sure a number of you are and, you know, there's also attorneys here. The report is on the firm letterhead, but I sign my name personally, and I've seen situations where a finder of fact, a judge will not even allow a person to testify, because the report that they've submitted has been the firm name report, and not the individual expert witness. And I think there is an analogy there. there is an analogy there.

Damon, you had said that it's easier to deal with the partner, and I guess Damon's left here, for the moment, but -- on that I'm not sure that I really agree with that. I know that I've received calls from shareholders before, and the first thing that I tell them is, you know, "I really can't discuss the client's decisions or the financial statements with you directly," and then I call the CFO and ask them to call that shareholder. That just isn't possible, except for in a situation where we're talking about a shareholder meeting where you're present there with management and you can field the questions.

I would add to the list, Joe Carcello, State Board, NASBA is certainly in favor of this particular recommendation.

On your questions that you just flashed up there, Jennifer, concurring reviews and all of the other people -- I'm not in favor of that, and I'll tell you why. Concurring reviews in our firm -- we want to keep those people insulated and really, a higher level of independence than what the -- an engagement partner engagement partner operates at. It's okay to talk with your client, to meet them, but we really try to keep any kind of personal relationship that they've got going with the company at one level beyond what, even, the engagement partner's at, and so that there's never any question that their advising the engagement partner, taking their responsibility one step removed, and hopefully making the best decisions possible.

JENNIFER RAND: Thanks. Thanks, Gaylen.

David Becker?

DAVID BECKER: I have to say, I'm struck by the insignificance of the issue.

[Laughter.]

DAVID BECKER: You know, the underlying values of accountability, transparency, and investor confidence are certainly very important, but the proponents here don't seems to be saying that it's going to make a very big difference, and the opposition also seems to be kind of lukewarm.

What I'm -- and the question for me from the standpoint of advising -- if we're an advisory group -- advising the Board what it should be doing, it strikes strikes me, on balance, I'd say, "Sure, do this, but don't spend very much time on it, and put it on the bottom of your list." Because we started talking yesterday about, you know, how should the Board respond to the largest financial crisis since the Depression. And it strikes me, spending a lot of time on whether or not -- or in getting individuals to sign audit reports -- that's a, you know, I can make the argument that it has a relationship to that, but not much.

And I just hope that whatever the Board does in this, as I say, it spends most of its time on things that are much more important, and are going to have a more demonstrable effect on audit quality. And it is the fact of audit quality from which confidence arises, more than the sort of more subjective, "Oh, this makes me, you know, this makes me feel more [indiscernible]."

JENNIFER RAND: Thank you.

Bob Kueppers?

ROBERT KUEPPERS: Just a couple of follow-up thoughts. You know, the actual recommendation from Treasury is signature, but when I listen to the dialogue, I hear that a lot of the benefits come from the transparency of having the name of the individual. And in your questions, you didn't frame up -- another way to apply this is the last sentence of the auditor's report could say, you know, "Robert J. Kueppers is responsible for the completion of the engagement and compliance with professional standards." I mean, that would be a disclosure in the report, but it wouldn't be a signature. And probably 90 percent of the benefit is there because people would know who it is.

The most intriguing thing I heard today, though, because we've struggled as a profession and with many of the constituent groups here about the wisdom or folly of mandatory firm rotation, versus partner rotation, the notion of visibility being a way to monitor partner rotation as an alternative to proponents of, perhaps, firm rotation, that has some real -- it is really intriguing to me.

So, if the Board takes it up, you should maybe not have to do it so literally, you should maybe think about other ways, we have this jurisdictional issue, because I could argue that proxy disclosure would be just as effective, but that takes it out of the PCAOB, puts it over at the SEC, but the other sort of middle ground, is you could think about disclosure in the auditors' report as separating it from having these two signatures at the bottom.

So, I just -- if you do determine to take this up, I would encourage you to think about, you know other ways to achieve the objectives we heard today.

JENNIFER RAND: Thank you.

Kurt Schacht?

KURT SCHACHT: Thank you.

Whoever down here on my left mentioned that this is really about confidence, I think you're right on. I think this is really about the truth of the balance sheet, and that anything we do in this environment is very important in that regard. So, we support it, as an investor group, and I think -- I think Janice was right on.

I have a just a -- very quick practical question, for Bob and the other auditors here, and I think Gaylen sort of touched on it for me -- but what is the frequency of direct contacts that you have from shareholders now, and what is contemplated in the context of putting this information and the phone number there, because my sense is that this is really -- simply a statement about your involvement, as opposed to an invitation for questions.

ROBERT KUEPPERS: I'd be happy to take that up. I mean, one of the -- I think it was Gaylen that mentioned -- he's actually received calls from investors in the past -- it's a very awkward call to take, even though I've actually taken those calls from time to time.

Not only do you have client confidentiality -- because it's usually a question about the financial statements -- you're really not able, under the professional standards -- to chat with an individual investor, or institutional investor, any investor -- about what you might know or have learned in the course of their engagement.

You've also got, you know, things like Reg FD. If you're sharing information with one caller, and that information is not provided to all investors, I mean, you're going to find yourself in an impossible place. So the first thing you must do is call your client and say, you know, "Joe or Sally just called me, I don't really know them, but I'm not in a position to comment, could you handle that?" I mean, that's kind of what happens.

So, the real interaction, frankly -- if there is any -- is at the annual meeting when you are there as a representative of the firm to answer questions in the public arena, but then everybody's there -- the shareholders are there, management's there -- and you're able to respond as appropriate.

KURT SCHACHT: So, I guess the other question is what is -- is there a point to putting in the phone number?

ROBERT KUEPPERS: No, it's just that in Europe they do a lot of crazy things.

[Laughter.]

JENNIFER RAND: John Kellas? Seems like a good segue for you, you were next.

JOHN KELLAS: Well, fortunately, I have no mandate to speak for Europe.

[Laughter.]

JOHN KELLAS: And there are about 20 languages spoken, anyway.

There were a couple of comments about the international position, and I, first of all, would say that I was pleased that Cynthia raised the question of convergence, because I think that is extremely important, and I'm glad that it is considered 'round this table.

In this particular regard, though, I don't think there is a convergence issue involved, and you will have seen from what is in the briefing paper that we do not mandate a personal signature of the audit report. We do, however, of course -- and this is absolutely key -- require that the engagement partner takes responsibility for the audit, and that is just a sine qua non.

And it does seem to me that the particular way in which the audit report is signed is substantially a jurisdictional matter, and many of the cases where personal cases were used relate to jurisdictions where that is the way in which firm signatures were signed as a matter for legal practice, and so that -- there's a history there that may depend upon the particular jurisdiction.

But apart from that, I think I have no mandate to advise you to jump one way or the other, except that I would rather agree with Mr. Becker's comment about the importance of the issue.

JENNIFER RAND: Jean Bedard?

JEAN BEDARD: Yes, thanks.

I had wanted to make some comments on transparency. Let me first, though, respond to Bob. There is some research on partner rotation that has been enabled by having the partner's signature in Australia and Taiwan, with regard to audit quality differences at one end of the tenure spectrum or the other, and they come to opposite conclusions, so I don't know.

ROBERT KUEPPERS: You've got to love research.

JEAN BEDARD: Yes, there's always more to do. do.

But with regard -- I have a question now, with regard to this issue here on the slide of single versus multiple people. With the transparency purpose, you do want, of course, to reveal the true, underlying process otherwise it's not transparent, so which is more reflective of the true, underlying process is that -- I can see it both ways, so I'm asking, here -- is it multiple people signing is more descriptive, as Bob said, the firm's have many controls around this opinion, and many people are involved in some way?

Or, as we've heard here, too, the lead partner is the one that determines when the work is done, and the lead partner should sign -- so, which is the more reflective? Assuming that this were going to be done of the true, underlying process.

JENNIFER RAND: That's a good question and we're hoping to get some answers.

JANICE HESTER AMEY: You can have the engagement partner sign, since they have all of these other colleagues sign with him or her, then let's have them all sign.

Just that list, but I think the wrangler, the engagement partner, is the most important.

JENNIFER RAND: Okay, thank you.

We have several people still wanting to speak, and I'm getting mindful of time. We've got about 15 minutes.

Greg Jonas?

GREGORY JONAS: I used to have a client who said that -- accused me, he said, "I sure pay your firm a lot of money for a single piece of paper signed by a dead man."

[Laughter.]

GREGORY JONAS: I'm delighted that, if we go forward, I finally have a response to this concern.

[Laughter.]

GREGORY JONAS: My views on this topic changed in about 2003, because I think the certifications -- management certifications -- went in about 2002 as I recall, though my memory may serve me wrong, but is that about right.

I had thought for sure that the management certifications -- I guess that was under Harvey's regime, maybe? Was, you know, much adieu about nothing -- very much David Becker's take on this issue. And I was surprised at how seriously the executives and companies took those certifications, and what additional things they put in place to put some discipline around these certifications.

And I thought it was helpful, and it taught me a lesson about human psychology. And I think that there are 2 reasons to go forward with this idea. One is -- I'm repeating what's already been said, but my priorities would be, first, it is good optics, from an investor's standpoint. But I wouldn't dismiss the psychological aspect of this on the engagement partner.

You know, everybody's proud of the firm, or they wouldn't be with the firm, but they're also proud of themselves, and their names, and particularly professionals who have worked many years to develop an excellent reputation. And I think the truth is, in an audit, both are on the line -- not one, both. And I can remember some cases where there became a dispute with a big client, and the engagement partner did the right thing, and raised the dispute within the firm, you know, for a resolution.

And all of a sudden, high unit partners were resolving this dispute. And the engagement partner was basically prepared to take dictation from the firm. And I think that if this serves to -- and this is one psychological example, but not the only one -- if in those instances it serves for the engagement partner to come in and remind the high unit partners that there are two things on the line, here, and I need to be comfortable with this thing, too. And maybe that could help, in a small way.

I'm not claiming that this is a panacea, and that this is, you know, going to help us get through the sub-prime crisis, but I do think that this is something that is worth seriously considering, and it can have an impact both from optics, as well as psychology.

JENNIFER RAND: Thanks, Greg.

Just from a count of the cards, I've got 9 cards up, and 10 minutes left, which means about 1 minute a person, which doesn't seem practical.

We are very interested in your views on this subject, so I would hope that it would be okay with you if we extend the session about 10-15 minutes, to provide everyone an opportunity to speak, so you have about 2 minutes a person.

So, next on the list is Randy Fletchall.

RANDY FLETCHAELL: Jennifer, I'll honor your request, and I'll be very brief. I've heard a lot of reasons thrown out as to why the lead partner should sign, ranging from monitoring partner rotation to comply with independence rules and access to the party -- who is not going to disclose client confidential information -- a whole bunch of different reasons, but I guess, tell you something -- the lead partner has a fundamentally different role on each and every audit, the audit stands for anybody else, and so I would absolutely say that if PCAOB wants to go forward with this recommendation about someone signing the report, you would stop at the lead partner, and not go beyond that, I think. All you do is get people who have pieces of the audit, some involvement, completely different roles, and would stop at the lead partner.

JENNIFER RAND: Thank you.

Dick Dietrich?

J. RICHARD DIETRICH: I don't have a comment, it's more of a question, and I'll frame it as a hypothetical.

Let's suppose that we have an audit partner who conducts an audit for Client A, and subsequently Client A's financial statements are restated. Now, the question is going to turn on whether or not the audit partner's name is publicly known with that.

Subsequently, Company B decides that they want to engage that public accounting firm, and that partner, and that's the decision they're considering.

So the question I have is one of consequences, and this gets back to Randy's point, too, of who do we think that we want to hold accountable for that restatement, how would we do it? Would Audit Committees behave differently if the name were publicly known to have been associated with the restatement?

Because I think -- the point that was made earlier was exactly right. At least the academics, and I suspect the investor community, too, is going to start running Compustat every time they see a name associated with it. So, the more names you put up, the more association people are going to run.

And the question is, would an Audit Committee say, in the absence of public knowledge that this partner who, perhaps, they're convinced would actually do a fine job on their audit, would they then say, because there's public knowledge that that auditor was affiliated with a restated company's financials in a previous period, they would not engage the partnership, or they would not use that particular partner as a lead partner?

And so, there's a consequence there. And I don't know if it's an unintended consequence, or an intended consequence. But I think that's something that the Board might consider.

JENNIFER RAND: Good question, and perhaps some of the SAG members who have their cards up and if they have different backgrounds, might give that -- if you have any thoughts or observations regarding Dick Dietrich's question that he raised.

So, Joe Carcello? I'll turn it to you first.

JOSEPH CARCELLO: Yeah, I wanted to weigh in on your question up here since you said you wanted feedback on that. I agree with Gaylen and Randy on this issue. I think clearly to expand it beyond the lead partner would probably be a mistake. All of these other people have limited roles, very different roles, and if you want to talk about costs -- if you start having the concurring partner have to sign his or her name, then I do think you're going to have some real cost issues, there. So, I think you'd stop if you go forward with the lead partner.

And, if I could, I wanted to just ask a quick question that I think he could respond to very quickly of Bob.

Bob, you suggested that rather than having the signature, just put the name in the report, of the partner -- what would be the benefit of that?

ROBERT KUEPPERS: I guess that -- my point is

I was hearing different things. A lot of what I heard heard was, "Well, okay, it wouldn't really impact quality, some say it was just a mite of a psychological effect." But I think the same psychological effect would be there if you were named. It's the difference between signing and naming, it's disclosure versus the physical act of signing.

Because I still think the report, first and foremost, is the firm, and all of the resources of that firm are behind it, and at risk. The signing of the partner, you know, it seems less important than -- from what I'm hearing -- about, well, who is the partner?

JENNIFER RAND: Ted White?

TED WHITE: Thank you, just a couple of points.

I'm actually a little concerned about the discussion in regards to the importance of this topic. And I want to say that while I do recognize this is not a silver bullet here, that it is an important concept, and we shouldn't underestimate its potential to have a positive impact over time.

You know, rather, I think what it is, is a simple concept, and something that should not take the PCAOB or the Board a long time to come to a conclusion, and act on this. We're making it more complex than it needs to be.

I, for one, would not want to enter into horse trading on this, I think you should just move forward and have them sign the audit report. I think it's fine to leave it at the lead partner, you could always revisit that in a number of years if you wanted to have another fascinating discussion like this, but I think it's fine to leave it at that level right now.

And to Richard's point -- I suspect that this does not lead to a world where audit partners have to be batting 1.00 to get their next assignment. I think there is some fair recognition that, you know, this isn't a perfect science.

I would assume it's going to be quite situational, this be something that leads to questions from Audit Committees around the circumstances, which is a good -- another good audit quality indicator, these are going to be individual situations they need to investigate, and at least they know about it, and that's a positive benefit, here.

JENNIFER RAND: Vin Colman? Oh, you put your card down?

VINCENT COLMAN: Well, I'll go -- I was going to answer your question, but it sounds like everybody's got a similar reaction, so I put my card up because I think -- I understand all of these, I guess the arguments with respect to the lead partners, so not to repeat any of them, but to go beyond that, because these roles are so different.

I did want to -- the Damon question was addressed, but I wanted to go back to Cindy's point, and I don't see the, at all, how the signing partner, this discussion assists with respect to the international organizations of the firms. We've talked about that before, why the firms are set up that way in other sessions, but I don't see how that -- the individual partner signing here in the United States -- is going to help investors, at all, understand the legal structure of the firms, and the people that are working on them. I don't see that transparency.

JENNIFER RAND: Cindy, do you want to address that?

CYNTHIA RICHSON: Yeah, just real quickly -- my point was that, number one, those kinds of reports are not being produced in the U.S., so we don't know what the legal structure is, but my understanding -- just from anecdotal information -- is that when you say, "the firm" that there's a similar individual, partnership with a common branding.

And so, my point was simply to show that it's not, you know, one legal entity, KPMG International, versus KPMG USA, and so it would just be informative for investors.

VINCENT COLMAN: Yeah, I got that, but just so we're all clear, or help me -- we're talking about a U.S. standard where we would be signing, here in the United States as a U.S. firm. Just as simple as that.

CYNTHIA RICHSON: Right, but is that firm in Arizona, is that partner in Arizona, is that partner in California? I'm simply talking about informative as to who, actually, was the lead partner.

JENNIFER RAND: Christy Wood?

CHRISTY WOOD: I just wanted to say that

after listening to all of the arguments, you know, sort of against the signature, speaking on behalf of investors who, I think, are not just users, but in fact, they are the providers of capital, and I think those are the people that we all work for -- that it seems to me if they'd like more transparency and more accountability that -- and this comment is directed directly at the PCAOB members -- you ought to give it to them. You know, they are the providers of capital, they're not just one constituency, the are the constituency, it seems to me. And not equal to many others that are represented at the table.

So, that's it.

JENNIFER RAND: Jeff Mahoney?

JEFFREY MAHONEY: Thank you, just two points. The discussion has probably already made this clear, but just for the record that Janice isn't the only general member of the Council of Institutional Investors who supports this. We had seven other members from across the country who felt this issue was important enough that they took the time to write a a letter to the Treasury Committee or to testify in front of the Treasury Committee on this issue, and all of them strongly supported it.

In addition, I've had a number of off-the-record discussions with some current and former auditors, both in the U.S. and outside the U.S., and I was struck that one of them, at least, put this item at the top of his list of the things that he would do; if he could do something tomorrow to change the auditing profession that he thought would make an improvement, he put this on top of his list.

And the reasons that he gave me were quite similar to the reasons that Andrew Bailey gave to the Treasury as part of his submission. Andrew Bailey is currently with Grant Thornton, but was formerly the SEC Deputy Chief Accountant who, I believe, oversaw the PCAOB and auditing, had his time at the SEC.

Just to mention a couple of things he said in his statement to the Treasury. He said that, "Requiring this change may have the effect of focusing the attention on those named individuals on the potential future consequences of a badly-done audit. Knowing that any failure will be clearly and unambiguously associated with the named individuals, and that the veil of the firm will not be there to obscure the responsibility may be of value. Something similar occurred when senior managements were asked to sign off, personally, on internal control and disclosure systems effectiveness."

Thank you.

JENNIFER RAND: Larry Salva?

LARRY SALVA: I guess I was going to echo my thoughts that I'm struck by the insignificance of this issue, but in any way, I don't mean it quite that same way, in that I'm surprised at how much debate there is going on over the issue -- that it does seem to me to be a pretty simple thing to do.

But I'd also say that, I don't believe, personally, that it will -- it's not going to matter in quality. In my opinion. Because, you know, as a prior, a previous person that used to sign audit reports on behalf of my firm, they were in the name of the firm, I don't believe, if you're signing as a professional, you understand that when you're signing as the -- in the firm's name, or your own name, you're binding all of your partners, and resources of all of those partners, to this professional act you performed, for the audit. But you are the person that is taking that personal responsibility for making that final decision about issuing the report, the form of the report, et cetera.

But, you know, as apparently there is an expectation gap here, between what the auditors think, and maybe what issuers think and what investors think. So, agree with Greg's point, that it's good optics -- that if the investors actually do have this problem with the confidence of not believing that the partners that are binding the firm are taking personal responsibility, and taking that act seriously, then maybe it will help the optics by naming the partner.

But I also believe that all of that benefit will come from just the name -- not signing. And the reason that I would think that we don't want to necessarily bind it up into a cursive-written signature -- first of all, many handwritings are so bad that you wouldn't be able to recognize who the person was by person was by looking at their signature. But in this age of electronics, when I sign my 10Q or 10K, I believe my signature actually goes into our files, and doesn't get filed, and that an electronic name goes into the filing. So, it really doesn't matter whether you get a cursive signature or not. It's the identification that will give you all the benefit, I believe.

And as to the point about naming others, there's only one -- it's been my understanding -- there's one person that makes that final decision, as to whether that report should get signed. That person should be identified. All other people are part of the team that supports that decision, but one person has to make that final decision, that's the only person that should be made.

JENNIFER RAND: Thanks, Larry.

Lynn Turner?

LYNN TURNER: Let me just say that the origin of this recommendation actually did come from David Tweedie, who had a conversation with me and other members on the Committee. He'd been in the national national office of KPMG in London, and he felt very,

very strongly, if there's one thing we did, we ought to do this, because he said he'd had to deal with partners out in the field that just weren't sharpened enough on the issue, and he thought this is the one thing that really needed to be done to get those people sharpened. So, that's where the thing really came from.

I think Greg is absolutely right, that we had big change in behavior, even though there was no change in liability, when people had to start signing the 10Ks and put their names on it. And we're going to see the type of change in behavior, I think, with this one, without a doubt.

I think just how significant it is, is evidenced by the fact that the firms just absolutely do not want to go do this. And I think that's probably the best indication of just how significant this is going to be. The firms have fought this for the last 3 decades, tooth and nail. It's not the first time it's come up, and I think it tells you, it is not an insignificant thing. The CEO-CFO thing was not not insignificant, and neither will this.

And I totally agree with Randy -- it should stop at the partner, and only be one name.

JENNIFER RAND: Thank you, well we have two auditors that are left to speak, so Gaylen, and then Vin.

GAYLEN HENSEN: I do think that getting back to your question, Rich, there needs to be some consequences, and hopefully it wouldn't be a career-ending consequence, in terms of the Audit Committee chair asking those kind of questions, but it's a matter of transparency.

And then I wanted to -- I meant earlier to add to Lynn's comment where we're watching -- in Colorado we're watching Mr. Turner very closely --

[Laughter.]

GAYLEN HENSEN: -- and we can haul him before the Board.

[Laughter.]

JENNIFER RAND: Vin Colman?

VINCENT COLMAN: Yeah, I'll just be real quick. Damon said, you know, stall tactics -- this is not a stall tactic at all, but I do think you should answer Dick's question, and really think about the fact. Because I hear a lot of the perceptions, and people think there will be perception differences, and you can debate that for a long time. All right? So, everybody will have a different view, and who knows? Maybe it's somewhere in the middle.

But the one thing that you don't want to do, is to do anything to take -- possibly take -- a step backwards, and just make sure you fully analyze that. And I think the question that he put on the table is a fair one.

JENNIFER RAND: Just when I think I have all of the tent cards down, they keep popping up.

Bob Kueppers?

ROBERT KUEPPERS: I'm sorry, I just -- I really feel the need to respond. Is this my last meeting, by the way? Jen, is this my last meeting? Am I done? Okay, so I have no -- I have nothing to lose.

[Laughter.]

ROBERT KUEPPERS: I just -- I just -- Lynn, I've got to tell you, I don't think it's fair to accuse the firms of fighting this for 30 years -- it's a different point. I actually believe the signature of the firm is more important. I'm the one that just suggested that disclosure of the name is not the issue, it's the signing thing that I think just mucks up and confuses the point. If transparency is the objective, there are ways to do that. And I just, frankly, believe that when you try and manage -- best you can, 1,000 people, in my case -- there are a lot of partners, and as fragile as their situation is now, with all of the pressures that are on them, you know, I'm always worried about the next thing that's going to be the straw that broke the camel's back, and I'd like to keep people focused on their responsibilities, doing a quality job, and I don't think that this is -- changes liability at all, I really don't. And so I'm not worried about that.

And, you know, and in Europe, where people have been sorting for years is a very different liability situation, so -- I think the Board should take this up and do what they do with it. We'll play it out, and it'll come out where it comes. And I think all the input we can possibly give has been given to the Board at this point.

But I -- I just -- you know, it's viscerally it's not something that I think is just a great idea, but you know, it's -- whatever's going to happen is going to happen, and so we'll move on.

JENNIFER RAND: David Becker?

DAVID BECKER: Just very quickly -- there is a difference between signing and provided information, and even though you can't precisely trace all of the threads of liability -- signing is a form of representation, or acknowledgement of responsibility for -- the statement that's made. It's not merely providing information, it is an assertion And it's taken as an assertion, and absent something that, in effect, immunizes you from liability, will mean that the person signing is regarded as "the speaker," for the purpose of the representation.

At a minimum -- so, that's the first point.

The other point is, whether you think this is a good thing or a bad thing for people to decide, I don't think it's realistic to say that an Audit Committee -- having gotten a communication from someone, saying, you know, "We understand that the audit team that you're considering hiring has as its lead partner," or the folks who have been doing your audit, have the lead partner, someone who was involved in a restatement, or two restatements. To assume that that won't have consequences for the person named -- of course it will.

Because the Audit Committee is going to say to the firm, "You know, I -- you've got a fair number of partners," 25 in whatever the area was that was mentioned, the other -- we'd rather take the guy without the restatements associated with his name than the one with the restatement.

So, I -- you know, again, you may think it's a good thing or a bad thing, that's their -- but it's not nothing.

JENNIFER RAND: Well, thank you so much, this has been a great discussion this morning on this topic. I appreciate everyone's comments, and especially want to give thanks to the panelists, Janice, Jean and Bob, Janice, Jean and Bob, so thank you very --

(Recessed at 12:40 p.m.)

(Reconvened at 1:50 p.m.)

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on October 14, 2009 that related to the Board's concept release on requiring the engagement partner to sign the audit report. Other topics discussed during the October 14, 2009 meeting are not included in this transcript excerpt.

The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript. The transcript has not been edited and may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at http://www.pcaobus.org/News_and_Events/Webcasts.aspx.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

(PCAOB)

STANDING ADVISORY GROUP MEETING

9:03 a.m.

Wednesday, October 14, 2009

National Association of Home Builders

1201 15th Street, N.W.

Washington, D.C.

MARTIN BAUMANN: Thanks for your comments on that.

So the third, the third item we have is the concept release on potentially requiring the engagement partner to sign the audit report, in addition to the firm. And that comment period has closed as well, and Bella Rivshin is going to give a summary of the comments received here.

BELLA RIVSHIN: Good afternoon. The July 28th concept release is the most recent concept release the Board issued to solicit public comment on whether the Board should require the auditor with final responsibility for the audit to sign the audit report, in addition to the currently existing requirement for the audit firm to sign its name on the audit report.

As Marty mentioned before lunch, the SAG discussed this topic last year, and this is after the U.S. Department of Treasury Advisory Committee on the Audit Profession issued their final report, which included this recommendation. The Board received 23 comments from auditors, investors, academics, and others.

As you can tell, there was -- most of the comment letters came from accounting firms and

association of accountants. The comment letters can be found on the Board's Web site under their rulemaking docket, Number 29, in addition to the comment letters for confirmations and also risk assessment in case after this discussion you are interested in actually looking at some more specific comments.

I think differently than the comments that were received on confirmations and possibly risk assessment, there were very opposing views relating to this topic. I think, similar to the SAG discussion, there were certain individuals on one side who felt very strongly that this is a requirement that will increase audit quality and investor protection. And there were others who felt that this would not provide any additional information as it relates to investors and would not increase the quality of the audit for several reasons.

The investors who commented do think that this would enhance audit quality by strengthening the auditor accountability and improving the transparency of the audit process. There were academics who commented that such a requirement could have a number

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of positive effects, while an association of academics commented that based on the existing research, it is unclear whether the signature of the engagement partner would improve the audit quality.

Auditors felt strongly that such a requirement would not increase audit quality because partners already held accountable to their own very strong sense of professionalism and accountability supplemented by mechanisms that are in place to allow third parties to hold them accountable. The commenters noted that such mechanisms include the firm's own system of quality control over its auditing and accounting practice, the firm's internal inspection process, the PCAOB inspection process, and the oversight by the audit client's audit committee and other regulators, such as the SEC and State wards of accountancy.

Auditing firms also commented that requiring an engagement partner to sign the audit report would not provide any additional benefit over and above the existing mechanisms of accountability and transparency and, in fact, could result in unintended consequences.

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Finally, the auditors were concerned that the signature may lead to a misconception by investors that in terms of who is actually responsible for the audit and the issuance of the audit opinion. Specifically, audits are accomplished because of all the resources of the firm, which include the engagement team, the engagement quality review partner, specialty partners if certain expertise is needed, and also consultation with the national office, if needed.

There were opposing views again as it relates to the transparency and also the possibility if users would be better -- by having the signature, it would be better to evaluate and predict the quality of a particular audit. Investors stated that the transparency would be useful to investors' audit committees and audit firms because they could evaluate the extent of the engagement partner's experience and the firm's policy on developing and enhancing the engagement partner's expertise, as well as oversight of engagement partners.

They could evaluate the quality expertise and better supervision of the audit team and the entire

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audit process, evaluate whether the auditor biases on information process is reduced and whether there is enhanced auditor's consensus and effort.

Academics who commented pointed out that the engagement partner is already known to the audit committee and that the knowledge and the identity of the engagement partner may be potentially helpful to investors, but they were not aware of any research that directly addresses this issue.

Auditors who commented stated that the engagement partner's name is readily known to the Board of directors, management, and regulators. And they were unclear as to how the knowledge of the name would provide useful information without understanding the specific capabilities of the actual partner.

Auditors stated that it's important to recognize that the corporate governance process operating under the various Federal and regulatory regimes under which investors are represented by the board of directors and, in turn, the audit committee. And the audit committee has the responsibility to hire, evaluate, and compensate the audit firm and, therefore,

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is in the best position to evaluate the firm and the engagement partner.

Auditors also commented of how they were unclear how the investor would be able to learn from the public disclosure of the firm partner's name because in most cases, the engagement partner would not otherwise be known to the investing public. And his or her sole identifying characteristic would not -- be nothing more than that she or he is a partner at an accounting firm.

They stated that it's unlikely to assist the users of audit reports to evaluate the qualifications or predict the quality of the audit because only knowing the partner's name, again, would not provide the engagement partner's expertise on a particular type of audit or his or her track record relating to that engagement and other engagements that partner is associated with.

Instead, auditors stated that including the individual engagement partner signature on the audit report could create misconceptions that the single person is responsible for the effort and not the

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collaboration of individuals in the firm.

People did mention that there could be -- this type of requirement could lead to some inaccuracies and conclusions about the quality of the audit under certain circumstances because people might be draw inappropriate or inaccurate conclusions about the audit based solely on the identity of the partner.

People who commented on this were mainly auditors and not investors and others. The auditors stated that such a requirement could result in a creation of databases or other type of clearinghouses that would attempt to create a scorecard of the skills and qualifications of auditors, resulting in what was likely to be an incomplete and misleading information, that these types of databases could provide misleading statistical analysis based on the number of audits performed by an engagement partner.

Or they could level unfair criticism or create adverse publicity for an individual partner because he or she was named as an engagement partner for a controversial company or a company that has gone through some financial difficulties.

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Auditors also stated that a scorecard would not appropriately consider the partner's expertise outside of the public company audit contacts and that a potential impact of these inferences may be that the engagement partner become overly concerned with such a scorecard and, therefore, become reluctant to be associated with certain issuers.

Auditors also stated that the conclusions drawn from such inferences may result in unintended consequences for smaller firms who may not have, may not be perceived to have as robust scorecard as compared to partners from larger firms, which may impact their ability to compete for audits of public companies.

And finally, auditors reiterated that there are many dependent variables that affect any simple statistic of audit quality, only one of which is the identity of the engagement partner. The auditors did also note some other unintended consequences. As I say "unintended consequence," I keep looking over to see if Lynn is over there to comment on the word.

The auditors reiterated that the requirement

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runs counter to how the carefully cultivated culture of collaboration in the firms -- that was a mouthful -- and would send the wrong message to the marketplace that the opinion is the engagement partner's sole responsibility.

There also, as I mentioned, could be what is called "guilt by association" of certain audits. If there is a partner who is repeatedly tasked with handling the most, you know, toughest of the audit engagements, the public may gain an inaccurate impression of that partner due to the perception of guilt by association with companies with financial reporting difficulties.

And as a result, there could be the willingness of audit partners to serve on engagements for certain audit clients may wane.

Auditors also were concerned that investors could second-guess an audit committee selection of an audit firm and the engagement partner, that the shareholders may be believe that it is appropriate to contact the engagement partner directly to ask questions about the audit and the company's financial

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statements and other matters. This would put both the shareholders and the auditors in an uncomfortable position because a lot of the questions probably the auditor could not answer due to confidentiality requirements.

Auditors mentioned that there could be harassment and personal danger to an individual audit partner and that the heightened concerns about personal risk may cause an engagement partner to be less willing, again, to make the professional judgments imperative to the execution and timeliness and cost effectiveness of high-quality audits.

And finally, auditors stated that this could increase the individual liability of partners, which could result in a number of partners willing to sign audit company opinions to be lower and the number of firms willing to undertake this type of work to be negatively impacted. Those firms in the marketplace, they stated, remaining could potentially charge higher fees to the perceived increased liability.

As I stated, these were very interesting comment letters to read and very opposing views on this

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matter, and you are more than welcome to read them in more depth on our rulemaking docket on our Web site.

On that, I'll open it up for comments to SAG members and observers.

And Wayne Kolins?

WAYNE KOLINS: Yes. Mine is more of a process question. I note that of the 23 comment letters, 17 were from accounting firms or associations of accountants. Six were from nonaccounting-related sources. In the Board's deliberation of a standard, obviously, you're looking at the substantive nature of the comments that are made. But to what extent is there -- do you weigh the quantitative nature of the comments espousing a certain position?

BELLA RIVSHIN: I think it's the quality of the comment that is made versus the number of times a comment is made. If there is one person that makes a very significant, well thought-out comment, the Board will take that into consideration, even if they were the only individual who made that comment.

But we always hope that many people will -- many more people will comment on our standards and

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concept releases.

Paul?

PAUL SOBEL: Kind of as a follow-up to what Wayne just mentioned, it seems to me that if only two responses represented investors, I would perceive from that that there is a high level of ambivalence among the investors and that, therefore, I'm not sure if there's a reason to move forward with this. Obviously, the audit firms are probably pretty dead set against it. And if the investors don't seem to think it matters, why are we talking about it?

BARBARA ROPER: This is Barb Roper. Could I comment quickly on that?

BELLA RIVSHIN: Yes, Barbara?

BARBARA ROPER: I just think that's not an assumption that you can make from that low number of responses. I think if you looked across the issues that the Board addresses, the sad fact is that there is consistently a low number of investor responses and that it is a mistake to assume that that reflects ambivalence.

I think it's as likely to reflect a lack of

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awareness on the part of the public about this process rather than anything definitive about what their views would be if they were more aware.

BELLA RIVSHIN: Gaylen Hansen?

GAYLEN HANSEN: During the Treasury Committee proceedings and the testimony, the investors felt very, very strongly about this. So maybe we only had a couple of comment letters, and that would be consistent with what Barbara had just mentioned.

We've been over these arguments. I didn't hear any new arguments in the comment letters that we've heard during the testimony that came before ACAP or in the discussion that we had last year, or maybe it was the last SAG meeting, on this particular issue. But we've been doing what we have for the last hundred years. And if we keep doing things the way we always have, then why would we expect a different outcome? And perhaps it might be time to try something a little bit different?

But I found the comment on the idea that we're going to have a shortage of partners willing to sign audit reports particularly -- I just -- I don't

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even know how to respond to that. I just don't see that happening that people are going to be not willing to step up to the plate and there will be a shortage of partners. I don't see that happening.

BELLA RIVSHIN: Joe Carcello?

JOSEPH CARCELLO: Well, I was involved with one of the comment letters. So how I feel is known. So I'll try to keep what I say brief because there's so much that you said I could respond to.

First, in response to Paul, yes, there were only two investor groups that commented. I would point out that one of those investor groups is essentially an umbrella investor group. Jeff may want to pipe in here at some point. But that investor group controls or the membership of that investor group has $3 trillion of assets under management.

And the other investor group that commented or other investor has $200 billion of assets under management. So these are very, very significant investor groups.

The second point I would make is I would encourage the Board to look at the comment letters from

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the firms were very good. They obviously have very bright people who spend time writing very good comment letters. But in fairness to the firm people, they have a vested interest in this debate, and the two investor groups are the customer of the financial reports and of the auditor report.

And the academics really have no obvious vested interest. And of the five, four of the five were unequivocally in support of this recommendation and only one of the five was somewhat I would say both pro and con in that comment letter.

I think the Board should look at the quality of ACAP, as I talked about this morning, the membership of that group. I would point out that the United Kingdom has already implemented this. The United Kingdom has not only implemented this, they have implemented or are on the way to implementing audit quality indicators. They have firms filing financial statements. I just wrote a comment letter this weekend on independent members of firm governing boards, which they have a concept release out on, which is also part of ACAP.

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So it would appear, to an outside party, that in terms of what investors want, the United Kingdom is leading, and the United States is lagging. As an American citizen, as an investor, that makes me uncomfortable.

I would agree with the firms that I think in most cases, this will not matter. If we were to look at the partners in this room, these are all people of high integrity and high competence, and I don't think it would make any difference on the audits they do. But I do think it could matter in the tails.

I won't go into too much depth, but there have been enforcement actions by the PCAOB against some individual partners -- in my opinion, somewhat egregious cases of knowing behavior. And if that person had to sign his or her name, would it have been different? It's hard to prove in advance, but it certainly might.

It's obvious that the firms are against this. The one argument that they made that I do agree with is I do think it's important to craft whatever you do here so as to not increase legal liability on the part of

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individual partners. I think there is enough legal liability. So I don't think they need more legal liability.

So I think that's a fair argument. Some of their other arguments I thought were pretty weak. But I think that's a fair argument.

And given the opposition by the firms, I think I have a very simple solution for you, and that is the United Kingdom has implemented this requirement in 2008. As of December 31, 2009, you're going to have 2 years of data. Study the data. See what happens.

Does mean behavior change? Does the variance change? What are the outcomes, both good and bad, of this requirement? Talk about a petri dish. Short of Canada, the United Kingdom is going to be about as close as you're going to get. And so, I think that could be very informative to the Board.

BELLA RIVSHIN: Thank you, Joe.

Jeff Mahoney?

JEFF MAHONEY: I think Joe just covered every point I was going to make, but maybe I have a couple more. So thank you, Joe.

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Just a couple to add on. One of the individuals who brought this to the attention of the committee, a very prominent accountant that we all know. His name is in the report, so I'm not going to name him, but worked for a "big four" accounting firm. I asked him if he was on the Treasury Committee, what is the number-one thing that he would recommend, and this was his idea. Former big four partner, internationally known, very well respected.

I've also had conversations offline with big four auditors on this point and the arguments, and I get a little bit different story than what you recited in the letters. I've heard all the arguments as part of the Treasury Committee, and I find most all of them very weak.

I would also point out on the legal issue, I agree with Joe on that. The committee discussed that. We had some very prominent attorneys involved in that process. You'll see in the Treasury report that they indicated that this could be done without imposing additional liability on auditors with language similar to language that was used for Section 407 on audit committee financial experts. That's Footnote 87 in the Treasury report.

Thank you.

BELLA RIVSHIN: If there aren't any other comments, we will move on to our next topic on fair value measurements and the use of specialists.

MARTIN BAUMANN: I hope you found this helpful that we will from time to time, as we have standards that we're proposing or concept releases that are outstanding, as we get comments, we'll try to share it with the SAG to try to keep you updated as we're moving ahead with our standard-setting and to bring that before the SAG and see if there's any further input that we can get from you in our thinking.

So I found it useful, and I hope you all did as well.

Meeting of the Standing Advisory Group

October 14, 2009

9:00 a.m. – 2:30 p.m.

Update on Proposed Standards and Concept Release Issued

Keith Wilson, Dee Mirando-Gould, and Bella Rivshin

Associate Chief Auditors, Office of the Chief Auditor

Update on Proposed Standards and Concept Releases

- Proposed standards on risk assessment
- Audit confirmations concept release
- Signing the auditor’s report concept release

Signing the Auditor's Report

Comment Letters Received

Firms and association of accountants	17
Academics and associations of academics	3
Investor representatives	2
Other individuals	1
Total	**23**

PCAOB
Public Company Accounting Oversight Board

Signing the Auditor's Report

- Key Themes of Comment Letters
  - Opposing views on whether the engagement partner should sign the audit report
  - Opposing views on whether requiring the engagement partner to sign the audit report will enhance audit quality and investor protection
  - Opposing views on whether such a requirement would improve the engagement partner's focus on his or her existing responsibilities
  - Opposing views on whether the transparency of requiring the engagement partner to sign the audit report would be useful to investors, audit committees, and others
  - Opposing views on whether requiring the engagement partner to sign the audit report would allow users of audit reports to better evaluate or predict the quality of a particular audit

PCAOB
Public Company Accounting Oversight Board

Signing the Auditor's Report

- Key Themes of Comment Letters (cont'd)
  - Some commenters stated that requiring the engagement partner to sign the audit report could lead to inaccurate conclusions about audit quality under some circumstances
  - Some commenters stated that there are potential unintended consequences of requiring the engagement partner to sign the audit report
  - Some commenters stated that there could be an effect on the engagement partner's potential liability in private litigation

PCAOB
Public Company Accounting Oversight Board

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on November 9, 2011 that relates to the Board's proposal on improving transparency through disclosure of engagement partner and certain other participants in audits. The other topics discussed during the November 9, 2011 meeting are not included in this transcript excerpt.

The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at: http://pcaobus.org/News/Webcasts/Pages/11092011_SAGMeeting.aspx.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

STANDING ADVISORY GROUP MEETING

Public Company Accounting Oversight Board

1666 K Street, N.W.

Suite 800

Washington, D.C. 20006

November 9, 2011

9:00 a.m.

PARTICIPANTS

Moderators:

MARTIN BAUMANN

Participants:

JENNIFER RAND	KIKO HARVEY
BRIAN SIPES	STEVE RAFFERTY
JOE CARCELLO	ANTHONY KENDALL
STEPHEN HOMZA	MICHAEL AUERBACH
KURT SCHACHT	BOB DUCEY
ARCH ARCHAMBAULT	LARRY SMITH
JAY HANSON	
MARY HARTMAN MORRIS	BRIAN CROUTEAU
DOUG CARMICHAEL	JIM KROEKER
KEVIN REILLY	ARNOLD SCHILDER
BARBARA ROPER	MEGAN ZEITSMAN
WAYNE KOLINS	HARRISON GREENE
ARNOLD HANISH	GAIL HANSON
SUE HARRIS	LYNN TURNER
DAMON SILVERS	LIZ GANTNIER
BILL PLATT	LEW FERGUSON

Participants (continued):

SCOTT SHOWALTER

JOHN WHITE

JEFF MAHONEY

JIM DOTY

GAYLEN HANSEN

NERI BUCKSPAN

MIKE GALLAGHER

DAN SLACK

DAN GOELZER

DENNY BERESFORD

LISA LINDSLEY

SAM RANZILLA

MICHAEL GURBUTT

KEITH WILSON

BRIAN DEGANO

GREG SCATES

GREG FLETCHER

DMYTRO ANDRIYENKO

DOMINIKA TARASZKIEWICZ

KANNAS RAGHUNANDAN

LISA CALANDRIELLO

MS. RAND: All right. We're at the last discussion of the day, improving transparency of audits. Our agenda says today that we would end at 5:15. Most SAG members are required to be here until tomorrow. So with that consideration, we thought we might go all night.

Just kidding.

[Laughter.]

MS. RAND: But we'd like to have the discussion go until 5:30. If that's a problem for anyone, certainly leave if you need to, leave at 5:15, but we do plan to go to 5:30. We very much are interested in your comments. So if we need to continue any discussion tomorrow morning, we will do that.

But with that, we'll get started. And Lew Ferguson, our Board member, is opening -- providing some opening remarks.

Lew?

MR. FERGUSON: On October 11th of this year, the Board issued proposed amendments to the Board's Standards and Rules aimed at improving the transparency of audits. Specifically, we have proposed two additional requirements: one, a requirement to identify the audit engagement partner in the auditor's report; and two, a requirement to disclose in the audit report other independent public accounting firms and other persons who took part in the audit.

This is an issue -- the identification of the audit engagement partner specifically is a matter that has been discussed repeatedly at the Standing Advisory Group and in the Board's Investor Advisory Group, and we've had different views expressed on it.

On the one hand, with respect to disclosure of the audit engagement partner, or the signature of the report by the audit engagement partner, proponents of disclosure have argued that such disclosure would increase the transparency of the audit process, as well as potentially increase the accountability of the audit engagement partner if he was forced to have his name identified or put his name on the report.

Skeptics, on the other hand, have argued that identification of an individual auditor in the report is actually misleading. It would be misleading to investors because the audit is, in fact, a collective enterprise and requires the resources of many, many different people in the firm.

They've also made a second argument. Skeptics have also made a second argument, that by requiring that the individual partner either be named or sign the report, it could potentially increase his individual liability in the event of securities litigation arising out of the audit.

We've looked at both of those things, and this is speaking sort of primarily for myself in this case, but I think one of the factors that influenced me, but I think influenced the Board as a whole on this, was that the audit engagement partner I think is in a unique position with respect to the audit. He is the firm's primary interface with the client. He is the person that the board of directors, the audit committee, and the management of the firm interacts with most of all.

The audit committee does not call up -- the chairman of the audit committee doesn't call up the firm when he has a question. He calls up the primary audit partner. And many, many audit committees also are extremely interested in the process of selecting a successor audit engagement partner when there is rotation, that who the audit engagement partner is, is a very important matter to clients.

So I think we thought that this is something, because of that, and because of the unique role of the audit engagement partner, that this is something that probably would be of use to investors to know who that is. We heard the arguments and we were familiar with the arguments that if you really want to find out who an audit engagement partner is, you can go to the shareholders meeting, where the audit engagement partner will probably be there and will probably get up and identify himself.

That's not realistic for most investors. Most investors don't go to the shareholders meetings. Perhaps the largest ones do, but most don't.

We also seriously considered the question of whether identification of the audit engagement partner would increase liability. I think the answer to that is not clear at this point. We looked carefully and were aware of, obviously, the developments in the Janus case in the Supreme Court and its rather ambiguous progeny.

But I think we thought that -- and this is something that we would like to hear much more on from other people, but we thought that, in our view, that in general we did not think that by identifying, merely naming the person, not requiring him to sign the report, that this would increase dramatically liability, and that's the reason we chose the course we did in these proposed rules of identifying but not requiring the audit engagement partner to sign the report.

On the second issue, with respect to naming other firms and other individuals who participated in the preparation of an audit, as we talked to people we were surprised to learn how many investors really were not familiar with the fact that oftentimes an audit, particularly of a large multinational firm, is oftentimes conducted by many, many different firms around the world, many of which are not the same legal entity as the firm signing the report.

We thought that it would actually -- I think the Board believed that it would actually increase investors' knowledge about the audit by having other firms that are participating in the audit be identified. For one thing, it would give investors knowledge of or transparency into those firms that have conducted part of the audit which are not subject to PCAOB inspections, and there are a number of firms around the world, for example even in some major countries, that as of yet we are unable to inspect, and that this would be information that could be of interest to investors.

We were aware -- we heard the arguments. We were aware of the arguments that, in fact, the principal auditor is the one who is responsible ultimately for the audit, and that he's actually supervising the audit, and the question was why do you need to disclose the names of the other firms that are involved. Nonetheless, I think under the theory that more information is probably better and people can understand and are able to evaluate that information for what it's worth, we have proposed to go ahead and identify those firms.

So that's the proposal or the proposals we took.

Obviously, the comment period is still open. We're waiting for people. We're very interested in what people's views on these issues are.

Jennifer?

MS. RAND: Okay. Thank you, Lew.

I'd now like to walk you through the requirements or the proposed requirements in our proposal. While the concepts I think are pretty straightforward, which is providing identification of the engagement partner and the other firms, there's some very technical aspects we found as a project team going through this project as far as who exactly is required to be disclosed, who isn't, and to what extent.

So I want to provide you with an overview of that, and the proposal is asking questions about the proposed amendments, as well as certain exceptions that may be provided, et cetera. And we're also interested in any discussion you all may have about it.

Before I get into it, I just want to mention that I'm joined up here at the table by Dima Andriyenko and Lisa Calandriello. They're my colleagues on this project, so I may turn it to them if they have any other thoughts in responding to any of your comments.

So moving on, the proposal was issued a month ago, October 11th, for a 90-day comment period. So we have two months to go. The comment period deadline is January 9th, 2012. It essentially is requiring disclosure in the audit report, and also Form 2, but in the audit report of the engagement partner, the name of the engagement partner, and other accounting firms or persons that took part in the audit.

It is also proposing an amendment to the Board's annual report, which is called Form 2, and our registered public accounting firms are required to submit a form to the Board on their annual report providing information about the issuers they audit. So this would require, in addition to the issuers, the name of the engagement partner.

I keep hitting my microphone instead of the advance-the-slide button, so you'll have to forgive me for turning my microphone on and off. Marty will do it for me. There we go.

The disclosure of the engagement partner, as Lew was talking about, it does build on the concept release the Board issued a couple of years ago that was seeking comment on whether or not the engagement partner, there should be engagement partner signature in addition to the firm's signature in the audit report.

We received 23 comment letters on that concept release. Some of the concerns were that the signature of the engagement partner would have the appearance or could otherwise minimize the firm's overall responsibility for the audit. The opinion, the audit opinion is the opinion of the firm, and it's the signature of the firm that's in that. So several comments raised concern about that is a partner's opinion or a firm's opinion, minimizing the firm's role. So clearly some concerns on that end, as well as concerns about liability, and Lew talked about that.

The Board in its approach modified the approach from the concept release. So this would not require the engagement partner's signature. It would, however, require disclosure of the engagement partner in the firm's opinion, and that disclosure would essentially say the name of the engagement partner for the most recent audit was -- insert individual's name.

It would be, then, the specifics, the engagement partner’s name. It would be for the most recent period. We received several comments about would it be for multiple years, and we recognized that with the partner rotation requirements, there would be changes in partners, which we would expect. There could also be other situations such as dual dating, or in an IPO situation, maybe several years, three years of financial statements may be audited at one time.

This proposed disclosure would require for the most part reporting on the most recent period under audit. That would be the situation we expect to see most often. The proposal does deal with those special situations such as dual dating and if three years are audited at once in an IPO, for example, in which case, if that was the case, if it’s the IPO situation, the disclosure would say the engagement partner for the three years or two years under audit was X; or if it was dual dated and they just did a portion of the audit covering the second date, then that would just disclose that individual.

So we recognized that there were some different scenarios that could come up, that do come up in reporting, and so the proposal is intended to reflect that. And then, as I said, the proposal would require disclosure in the Board's annual report Form 2, so the names of the engagement partners.

Advance me.

All right. So next, moving on to the other participants in the audit, so that would be the other firms or could be other individuals or other type of companies, we have seen in inspections and recognize through our standards that essentially other firms or other participants could and often do participate in performing the audit. In our standards, that really falls under one of two situations. One is AU-543. So that would be when another firm performs an audit of a company's subsidiary, division, office, and then the principal auditor may assume responsibility for that work.

Another situation is under our Auditing Standard Number 10 on supervision. And so firms or other persons, and I'll describe persons in a minute, but those would be supervised by the firm issuing the report, just like they supervise people within their own firm, within their own office. So that would fall under that standard. So it’s one of those. Either it's under AU-543 or AS-10, and in a practice alert the staff issued a year ago, we talked about these two scenarios, and our Inspections Division had seen certain issues or observations, deficiencies in connection with that. So we issued a practice alert to provide some additional guidance and point out what our standards say under those scenarios.

But this would essentially capture the universe of who would be required to be disclosed in the firm’s audit report.

There are certain exceptions, and so they’re listed on this slide. The exceptions that we have, I’ll go through each one. The reasons may be a little bit different for each.

The first is the engagement quality reviewer. In the previous slide I talked about the two scenarios, 543 and AS-10. The engagement quality reviewer is a person that under the Board standard is intended to provide an objective review of the audit that was done by the engagement team. The engagement quality reviewer does not perform procedures to help the firm obtain sufficient competent evidence to issue the opinion. Rather, that reviewer is intended to provide an objective look in order to provide concurring approval of issuance that the audit was done appropriately and the report is appropriately stated and can be issued.

So we are excluding the EQR. It does not fall under the 543 or AS-10 model. It would be separate. So that is an exception as far as other firms or individuals that would be disclosed.

Appendix K reviews, to some that may be very familiar; to others, maybe not so familiar. Appendix K refers to a requirement the Board adopted back in 2003 from the AICPA's SEC Practice Section. Essentially what that Appendix K requirement is, is that for firms within a global network, it requires the U.S. firm to perform a review or have those that have knowledge of U.S. accounting and auditing and independence requirements to perform a review of the SEC filing of foreign-affiliated firms.

So in a global network, if there was a firm in another country as part of that network issuing a report on a U.S. public company, then the Appendix K review would come in to perform that U.S. review of that filing, or someone with expertise in U.S. accounting and auditing and independence requirements before that report is filed with the SEC.

So those reviews, we saw those as somewhat similar, at least in nature, to an engagement quality review. It's intended to provide a review, an outside review so the firm itself does not take responsibility or supervise the work of the Appendix K review. So we are excluding that from disclosure.

We are also excluding specialists. Specialists can be used by auditors, and specialists are individuals with expertise in subjects other than accounting or auditing. We are not requiring those individuals or companies to be disclosed in the audit report. Principally the reason is that based on our standards, that doesn't fall under the categories of supervision, AS-10 or 543, the work of another firm. The standard is specifically an AU-336, which has specific procedures. So we saw that as somewhat different and different issues, so we have an exception for specialists.

And internal auditors and others within a company who may provide assistance to the auditor, we're excluding that work. And really the reason is there we saw internal audit, for example, internal audit has their own procedures they may perform. Part of their work may be assisting the auditor, but we saw that as somewhat impractical to pull out the amount of time that they're spending exactly helping the auditor versus other work they may naturally do. So we just saw some challenges and didn't think it was necessary to include them. So we have excluded them from disclosure.

I just realized that I didn't describe what I meant on person, which is one of the aspects of it. We recognized that individuals or companies, other than accountants per se, could be involved in providing assistance in the audit, to the auditor. It could be, for example, the auditor may feel they want some forensic help and may engage a company with forensic type experience -- it’s not an accounting firm -- to help them in doing fraud risk assessments and develop their responses to fraud risk.

So an auditor may engage an external company which isn’t a registered public accounting firm to help them in connection with their fraud risk assessment and audit procedures, fraud-related type audit procedures.

We think that work is also important. And so our use of the term “person” comes from PCAOB Rule 1001, which would include individuals, other companies. So it was intended to be broader than just accounting firms or accountants. That’s why we’ve used the work of person, because we recognize that there are others other than accountants that may perform work in connection with the audit.

All right. So, if you could move on? Oh, you did. Okay. Sorry.

As far as what the disclosure looks like, then, in the report, it would require the name, location, and headquarters' office of the other firm or other person. It would also require disclosure of the extent of participation. And as far as extent of participation, the proposal would require that that be measured in terms of percentage of overall audit hours.

We considered a variety of thresholds such as should it be percentage of revenues or assets or some other number. In thinking through that, we recognized that other firms or other participants may perform a variety of work. For instance, you could think of an inventory observation. Another firm may do a count of inventory in a different country. But in addition to just count how much is there, there is valuation associated with that. So it could be that the other firm in the other country is counting, but the firm issuing the report is doing the work associated with the valuation, is it valued appropriately. So just describing, then, percentage of assets didn't make sense because both firms are involved to a significant extent in connection with just the inventory work, for example.

We recognized that firms routinely as part of their practice record their hours they reflect on the audit. And so we felt recording hours and measuring percentage of audit hours and total of audit effort would be a measure that firms currently do and could be able to calculate. And our threshold, we came up with a threshold. We considered none, 1 percent, 10 percent, something else. We thought 3 percent was a reasonable threshold, certainly looking for any feedback on that.

But the requirement for individual disclosure would be at 3 percent of more or of the total audit hours. So you would individually disclose that. So if you think through the math, the total amount of firms that would be disclosed, could be disclosed in the report is 33. Thirty-three times 3 is 99 percent, and the 1 percent would fall out, and we would imagine it would be less than 33 because we would hope that the auditor issuing the report would do more than just 3 percent of the work. But that would be -- we initially had some questions about are we going to have pages and pages and pages. So we envisioned it would not be that, unless the font is incredibly huge I guess.

If the participation is below 3 percent, we're just requiring that that be disclosed in the aggregate, or the option could be that firms could disclose that individually if they wanted, but that that would be up to their discretion. It would be one or the other, in the aggregate, so other participants at 2.8 percent, or it could even be larger than 3 percent as long as each individually is 3 percent.

The presentation is an explanatory paragraph following the opinion, and we also provide that if firms used 15 other firms that were at 3 percent or more of the total audit effort, they may want to disclose that in an appendix. So they just have a list of firms in an appendix. That’s an option as well.

The other aspect of the proposal is in addition to when you assume responsibility or supervise other auditors, there are situations today where auditors divide responsibility for the audit with another auditor. So one auditor may audit 75 percent of total assets, and the other one audits 25.

The way the report is reflected today if that’s the case, it just makes reference that other auditors audited 25 percent. It doesn’t say the name. However, in an SEC filing, both audit reports are required to be filed with the Commission. We felt it was appropriate that the report disclose the name of who that other auditor is. That would be publicly available anyway. So it has a similar requirement when you're assuming responsibility, that when you're dividing responsibility it would disclose the name of the other firm and the location of that firm.

I think that's it.

I will now open it up for any comments you may have on the proposal, including questions that we've raised in the proposing release. Interested in your feedback.

It looks like I have a couple, tent cards down towards the end, so I'll start with Lynn Turner, and then I think it's Gail Hanson. Is that right?

Lynn?

MR. TURNER: I think the proposal to bring greater transparency to others participating in the audit is a great advancement. I think it's long overdue and very good, and I applaud you on that, as well as identifying who the audit partner is. I think that's very good as well.

I do have a couple of questions, though, for you.

I found the release somewhat confusing in one aspect. Where it talks about and explains why you disclose but don't have the partner sign, you bring up the Janus case. And in the Janus case, the advisor, Janus itself, did not sign the actual filing document. It was signed by the trustees of the mutual fund. And yet you seem to imply in your proposal that the Janus case would apply to an audit partner. That audit partner, as long as he signed a firm's name but not his name, might be very well excluded from liability.

And my question was, was that your intent? Was that your interpretation of Janus, that in fact Janus would apply to an audit partner, and that Janus would, in fact, exclude that audit partner from liability? And if so, did you have any discussions with the SEC, and did the SEC staff have a view on that? That was the first question. Maybe it's for Lew, because I think Lew mentioned Janus.

The second --

MS. RAND: I think Chairman Doty is an attorney, and I --

MR. DOTY: If Lew is willing to let it go, that's fine.

MS. RAND: In any event, I'm happy for any of our Board members that are attorneys to address that question.

MR. TURNER: There was a second piece of the question, then back to you guys after they get done. And that is, on the FRY-9 annual reports that banks file with the Federal Reserve, they obviously do disclose the name of the audit partner in those filings. So for all those banks, we do have a precedent here. Have you had any discussion with the Federal banking regulators about that? And if so, did you get any feedback as far as whether that worked or not, whether it increased liability or not? I'd be interested in knowing about that.

MR. DOTY: First, good questions all, Lynn. First, we have tried to take care in this proposal not to attempt to define and offer interpretations of the Federal securities laws as to which we are entitled to know, Chevron deference, whatever. So we have attempted rather in the proposing release to draw attention to the areas where there has been judicial development since Central Bank and judicial development in this complex area and invite the comment of members of the bar, many of whom have been here and are members of the SAG, on where they think these issues lead.

Yes, we have had discussions with the SEC. We absolutely have. They have been very helpful in informing the release. We do not comment on the deliberative process of our discussions with the SEC, and I wouldn't want to try to draw them in or suggest that they have any obligation to comment here.

I do think we are all looking forward to seeing what the bar says about their position on liability. I would be -- I will tell you, speaking again for me and not for the Board or for any other agency, let alone the SEC, I would be surprised if the bar took the position that this changed the law or changed the liability of an engagement partner in some fundamental respect, but that is the question. And if the bar takes a different view, we'll be very interested in hearing it. And it's the reason why the question is asked.

MR. TURNER: So, by the language in there, your intent was not to imply any conclusion one way or the other.

MR. DOTY: Our intent is not to affect the law of aiding and abetting, the recourse and remedies the SEC enjoys as an administrative agency, or any other Federal regulatory authority under the Federal banking statutes, for example.

MR. BAUMANN: I guess with respect to your other question, I will certainly be interested in any insights the banking regulators want to share with us as part of our proposal process. This may be a different scenario of being identified in the audit opinion versus being identified in a bank filing, but we haven't had a lot of analysis and discussion of that to date so far.

MS. RAND: Okay. I think Liz Gantnier.

Oh, Harrison, did you want to comment on that, Harrison Greene?

MR. GREENE: I don't know that we have fully vetted this concept release throughout the agencies, but -- and I don't have any information to address Lynn's questions about whether or not the disclosure and the auditors, or the engagement partner's name in the FRY-9 reports, whether or not that increased their liability. I made a note down here that maybe I can check to see if we had any anecdotal evidence to that, but I can't really address that.

But my personal view would be I think it would serve investors and everybody else to disclose the name of the engagement partner in the report that's the public report, and I think that would just aid a lot more. It might induce the engagement partner to be more conscientious, but I think it would also help everybody to see if the audit partner rotation rules are being complied with because we get some of those. I just think that it would be a good thing.

MS. RAND: Thanks, Harrison.

Okay, Liz Gantnier.

MS. GANTNIER: Yeah, I think Harrison started to answer mine. I just simply have a question. Harrison, you started to answer it. You mentioned in the opening remarks that not all investors have access or the ability to attend the shareholder meeting where the engagement partner might actually be physically present. And so, therefore, those that couldn't, the naming of the partner would provide them benefits. And I would just like somebody to articulate for me what we think those benefits are.

MS. RAND: I didn't particularly say those comments. Lew, did you want to address that?

MR. FERGUSON: Yeah, I said it, and I actually believe that's the case, partly in the notion that more information is better, and you can -- I mean, to the extent that over time this information becomes public, people who want to over time, if they look at the career of an auditor, you can go back and look at what other -- given auditor rotation, they'll be able to look at what other audits this person has been involved with, if they've been involved as the lead auditor of other public companies, and I think this is the kind of information that, again, over time particularly investors may find useful. You could see if these people have had industry experience. You could look up their public records in a way that, if they've been involved in other public matters, that can be easily searched through public sites that you can find things.

It's not easily transparent today to investors, and I think that's --

MS. GANTNIER: Thank you for that. I would only be concerned that if my name were, let's just say, David Duncan, that I might be confused with another David Duncan. And so I would want to be sure that there was a good control mechanism that, if you're going to start tracking engagement partners and their competency, that we have a way to be sure that the information is not misunderstood or, for example, Joe, your comments earlier on the going concern, that you said it didn't have an impact and the other guy said it did have an impact, and then you proved to him that it didn't have an impact, that we don't have sort of statistical anomalies that the data is being misinterpreted in some way. Thank you.

MR. BAUMANN: Liz, I think there is some other -- in the proposal, I believe it also indicates some academic research that's on the behavioral side of the benefits of being identified or signing, if you will, and increased accountability from the behavioral studies. So I think that's partially the view of the investors as well, that they believe that that increased accountability could improve the quality of audits. So this potentially has some audit quality improvement also.

MS. RAND: Okay. I have 10 minutes left according to my watch, to 5:30, and four cards up. So we'll go in the order of Gaylen, Denny, Joe, and Arch.

So, Gaylen, you're up.

MR. HANSEN: Yeah, thanks. Overall, I think it's great to see this moving along. While I would have preferred to see an actual signature in the report by the audit partner, I think that might address Liz's comment that she just brought up in a David Duncan signature that is different from David Duncan's signature. But regardless, good to see that we're going to have something on that.

And then I wondered if the Board considered some sort of de minimis rule. I mean, really independent contractors that are less than 3 percent, we're going to list their names anyway, and if you have interns and that kind of stuff? Really? What do you mean by --

MS. RAND: No. It was intended not -- no, it would exclude --

MR. HANSEN: It excludes independent contractors?

MS. RAND: Well, it excludes -- if it's de minimis, as far as our proposal, that would be less than 3 percent, that they would not be individually named. You just would say "other participants." Let's just say you had one other person that did 1 percent of the work. It would just say "other participants at 1 percent." It doesn't say the name.

MR. HANSEN: It just seems to me like that --

MS. RAND: We are asking questions about the threshold and other considerations.

MR. HANSEN: I would suggest the de minimis stuff. It's not going to make any difference to anyone.

MS. RAND: Well, our thought was there could be several firms involved that did less than 3 percent of the work, but then in the aggregate it could be material. It could be 15 percent or greater. So this proposal would not require the disclosure of everybody that did less than 3 percent of the work individually, but it would say you've got to aggregate that amount of work. So the investors have an understanding of how much is done by other people, because it could be significant.

Okay, Denny Beresford.

MR. BERESFORD: First, just for the record, Marty made reference to the research that indicates that somehow people will become more accountable or conscientious. Notwithstanding whatever research there is, I would say that that would be very difficult for most audit partners to say that having their name named versus signing the report, signing the material that they must sign before the audit report is issued, will cause them to become any more conscientious than they are right now I think is a ludicrous argument. That's my personal opinion in having signed a few of those in the past myself. That's my view.

The comment I wanted to make, though, has to do with the second part. When I read the proposal, I'm not an aficionado of Appendix K, so I first thought that the exception meant that Appendix K reviewers meant that you were accepting all of the international firm's foreign affiliates. And then when I asked more specific questions, I was told, no, that wasn't the case, that all the foreign affiliate firms have to be named.

And then when I thought about it some more I was thinking, well, wait a minute now, if you're accepting the reviewers for those, the people who actually have to go through and make sure that the work of the foreign firm was done properly and in accordance with U.S. accounting and auditing standards and independence and so forth, and those firms have already done their work according to U.S. standards and in accordance with firm international guidelines and so forth, I was kind of wondering why it's appropriate to name them now. What is it that we're trying to accomplish? So that's kind of question 1. But that kind of gets --

MR. BAUMANN: Can we get to question 1 first, rather than --

MR. BERESFORD: Well, let me just finish, because I think this will be my -- this kind of is my point. It seems to me -- and I know this is in your proposal. It seems to me that there is a question that you raise, and that is whether it really is necessary and appropriate to disclose all of the separate firms within an international organization, or perhaps just to disclose the couple or whatever it might be that are not subject to PCAOB inspection, for example, what it is that would be an additional improvement or insight you might say to an investor that there is a subsidiary in the UK or a subsidiary in Mexico or a subsidiary in Canada or whatever it might be that might be 3 percent or 5 percent or whatever. I can understand why maybe having information about China, perhaps, at this point in time might be important. Anyway, that's the point I was going to make.

MR. BAUMANN: I think there are two different points, so let me comment on the first one first.

So in the case of a foreign private issuer that may be audited by XYZ accounting firm in the UK, and maybe there's five other accounting firms affiliated or not affiliated but separate legal entities from XYZ -- it could be XYZ Germany and XYZ Brazil -- if they performed more than 3 percent, they'd be named. If they performed less than 3 percent, they didn't have to be named. They could be aggregated.

The Appendix K reviewer is an individual typically in the United States who is reviewing that foreign private issuer filing, not under the supervision of the auditor of the foreign private issuer. He's an individual of the affiliated U.S. firm who is reviewing that. So the same as the EQR person, not under AU-543, not under AS-10. It's an individual outside of the engagement team. So we felt that individual, those hours need not be included. It's a pretty small point.

MR. BERESFORD: I must still misunderstand it. I'm thinking of Eli Lilly, for example. Eli Lilly has operations in --

MR. BAUMANN: It doesn't apply. Appendix K doesn't apply to Eli Lilly.

MR. BERESFORD: Okay. But does Eli Lilly have to report in their auditor's report, assuming this goes through, that they have operations in 86 different countries, and at least in some of those Ernst & Young is going to have more than 3 percent of their total audit?

MR. BAUMANN: So the second question is -- I think Jennifer has already gone through that -- whether the firm is in a network or not, they are separate legal entities, and there is a misconception on the part of many people that it is one firm that is signing the report. This would put some clarity, transparency to the fact that who is the principal auditor and who are the other firms, and they could be part of the network or not. But they are separate legal entities. They are separately inspected by the PCAOB.

One part of the network could have very few comments in Part 1 of their report. Another firm could have many comments in Part 1 of their report and would look quite different. This would shed light onto who the different players were in that, and it would also shed light on some of those firms that have not yet been subject to inspection, or not even registered with the PCAOB.

So that's the rationale behind that.

MS. RAND: Lew Ferguson.

MR. FERGUSON: It's also important to understand that the relationship between these firms, even though they're separate legal entities, they're not parent and subsidiary. They're corporations that are not commonly controlled. They're entirely separate entities joined together in an affiliate, in a network most often. They voluntarily agreed to be part of this network. So it's not -- you don't have the kind of legal control that you would have in a parent-subsidiary or commonly controlled holding company structure, and I think that's important for investors to understand.

MS. RAND: Okay. One more card went up after I thought I was down to two, I think. So, Jeff, I'll let you have the last word. But please, no more other cards.

I know, Joe is next.

MR. CARCELLO: Thanks, Jennifer.

Two really questions, I guess, so let me do them one at a time, if I could, because they're not exactly related.

When you talk about disclosing the location of other participants in the audit, and my understanding of how you would have them do that, how the auditor would do that, it would be a disclosure of the country, of the headquarters' office location. So assuming my understanding is correct, could a firm be established in another safe jurisdiction, let's say Australia, but where all the staff of this firm are located in a risky jurisdiction? And I'll let you use your imagination for what a risky jurisdiction is.

So the disclosure is designed to highlight for investors. We are using this firm for X percent of the audit, and it's in this country, and if you think this country is risky either because of whatever reasons or because the PCAOB can't inspect there, whatever reason, forewarned is forearmed. So I try to drive around that rule by establishing a firm in a jurisdiction, in a country where investors would say, well, that's fine, that's a safe jurisdiction, but yet all of my staff is out of and sourced from a country that is potentially problematic. Do you understand the question? It's kind of subtle.

MS. RAND: Well, you said Australia, so let's say they're using it from another country, all their staff are essentially from another country.

MR. CARCELLO: Yeah, yes.

MS. RAND: So I guess technically then you would list Australia.

MR. CARCELLO: Yeah, that's the way this law is written.

MS. RAND: But then that Australia firm would have to be able to meet the standards that they're able to effectively supervise them as employees if they're in another country. I mean, so we've seen situations in the practice alert issued a year ago talking about the use of other auditors or firms taking responsibility, or using people in another country as assistants where we've had inspections -- where we've written up deficiencies in connection with that. We've raised concern about they really weren't being supervised as employees. So I would expect that that scenario that you described could be, but the firm has to meet a high bar that the Australia firm, for example, to make sure that they can effectively do that.

MR. CARCELLO: Just to make sure you guys, if you haven't thought about it, think through that.

And then the second issue -- and Lew really teed this up, I thought, very nicely in the public meeting, and you didn't have a chance to hit everything in your presentation, Jennifer -- but the issue of offshoring.

You didn't mention that because you didn't have enough time, but I want to highlight that. In your concept release you say, “An accounting firm could establish an office in a country with a relatively low cost of labor and employ local personnel to perform certain audit procedures on audits of companies located in the country of the accounting firm’s headquarters or in a third country.”

So again, let me articulate this. So a U.S. firm could open an office of the U.S. firm in a country that has low cost of labor, and they could do 5, 10, 15, 20 percent of the audit work. Under this proposal it’s not highlighted. I think that’s why Lew said he wanted comments on this.

Now you would say when you inspect that U.S. firm, you inspect that, and you may inspect their quality control procedures, but if it’s in a country that doesn’t let you in, you’re still not getting in. You’re not allowed on the ground. And some of these countries have very, very different cultures than the United States, completely different cultures in terms of investor protection and skepticism and so forth, completely different education systems, dramatically different.

And so I don't know if it's really a question. It's really more of a comment for the group, particularly for investors, to make sure you don't overlook that.

MS. RAND: Well, I'm glad you raised the point of offshoring because it is something that we described or discussed in the proposal and do have questions around it. The situation, the issue about education, training, culture, all of that, it's an issue broader than just offshoring. It's kind of use of other firms and other countries, and the quality associated with the work.

The issue in the proposing release that we were teeing up on offshoring is it's our understanding firms are offshoring work to areas and places where there is a lower cost of labor, for example, and some of that work is being described as just doing compiling files, not really significant judgment type of work.

The way the structures, though, are being organized can vary by firm. So they could be setting up an office in another country, but it might as well be Dallas. They're saying it's still part of the U.S. firm even though it's overseas in Country X. So in that situation, the way this proposal would not pick that up if a firm had set up an office in some other country because it's technically being part of the U.S. firm. But there are situations where firms, where that offshore work is part of a separate firm.

MR. CARCELLO: And then it's picked up.

MS. RAND: And then it would be picked up.

MR. CARCELLO: Exactly.

MS. RAND: So we are asking questions about the nature of that work and kind of how this disclosure works.

MR. BAUMANN: I think that issue of the offshoring is evolving, and as we gain more understanding about that, we may think about that differently in the disclosure. But right now in the proposal we describe it and ask comment and would investors want to know more about that in the disclosures we're requiring here. So it's a good point, Joe.

MS. RAND: I appreciate everyone continuing to stay past 5:30, but we just have two left, Arch, and then Jeff Mahoney.

So, Arch?

MR. ARCHAMBAULT: Thanks, Jennifer. Just a few points I'd like to make.

First of all, like Denny, I really have to reject the notion that the disclosure of the name somehow is going to incent a partner to perform better. I simply wouldn't want someone as a partner whose behavior in some way would change simply because his or her name was in the audit report.

Another thing is I do find it disturbing that the public statements around this issue in the release often seem to be directed at investors being able to search for publicly available disciplinary action against the partners, which strikes me as negative, very negative, quite frankly. And so if there is some negative reaction to this, I wouldn't be surprised at all.

But having made those points, I really don't have any objection to naming the partner in the audit report. Investors, if they want to, can find out the name, and this is simply going to make it easier for them to have that name.

Lew mentioned the liability side of things. I'm certainly not an attorney, but I don't suspect under 10B that it's going to actually increase the liability for a partner. I think what will happen, though, is that you'll probably see more partners named in litigation that comes up. Plaintiffs will use that as a tool. The name is there. In the current situation, the name is not there. They always have the ability to amend a complaint and add the name, and they sometimes do that. But I think we'll see more partners named.

A question, though, in my mind comes up with Section 11 and whether or not having the partner's name in there is going to in some way require the partner to sign consents, which is something possibly the SEC is considering.

I'll mention quickly Form 3. We didn't talk about it much, but changes in the partner other than on the rotation. I think that can be problematic because there could be reasons for a change that, quite frankly, other laws would preclude you from disclosing, like HIPAA, and we've had situations like that, health reasons. So what do you do in those circumstances? Do you just disclose that a change was made but you don't say the reason? That would raise a lot of confusion if you have to disclose other changes where you did explain the reason. So a consideration there.

The disclosure of the other participants. Again, I don't have a real objection to that, but I'm really wondering what we're trying to do. What I've heard many, many times is that the investors want to know the other firms, including network firms that have participated in the engagement, so that they can see whether those firms have been inspected. In other words, they're registered and have been inspected.

So it seems to me that we ought to try and keep consistent with other requirements of the PCAOB in terms of the threshold, because otherwise you can end up with a long list of names which I'm not sure what useful information is being provided if they are looking for those firms that have been inspected.

In the release itself, the examples of the disclosure you give, 60 percent of the engagement was done by firms other than the ones signing the report is how I read that. Well, without explaining, in effect, why the signing firm feels they have the ability to sign that report when 60 percent was done by someone else, and those percentages could actually go up, I think it could raise a lot of confusion there as well.

Form 2, again, I don't really object to the disclosure in Form 2. It seems quite duplicative. It seems like there could be confusion between a name reported in Form 2 but then a different partner actually comes out and is named in the audit report. So I'd try and search for a way to maybe do it in one place so there would be consistency. And while there would be a lag because of the Form 2 timing, I'm not sure that would be that critical.

So just some thoughts to throw out for your consideration.

MS. RAND: I'd like to comment on a few of them. You had several thoughts, but there are three I wanted to touch on.

One, you talked about the engagement partner, and I guess just talking about you didn't really see that it would -- I forget the exact word you used, but really go into improving their accountability or sense of accountability.

I think the main aspect of the proposal is to improve transparency. We've been hearing a lot from investors. Potential -- the release talks about there could be an effect of increasing a sense of accountability, but the significant reason is increasing transparency to investors.

As far as reasons, you talked about there could be a change in engagement partner for reasons other than rotation. The proposal is not requiring that any reason be described. It doesn't have that at all. We're asking questions about should other information be provided, but we're just saying you just disclose the name of the engagement partner. So it's not stating that you would have to provide a reason.

And as far as registration and inspection, there is an aspect -that I want to highlight you talked about, having them be consistent thresholds. As far as the Board's registration and inspection threshold is the Board requires firms to be registered with us, and therefore inspected. If they audit an issuer, so they're signing the report, or they play a substantial role, and substantial role is defined as 20 percent of the audit hours or 20 percent of revenues, et cetera, of their metrics.

In considering this proposal for providing transparency to investors of the other participants in the audit, we considered that registration threshold and inspection of the 20 percent, for example, and felt that several -- if we just went with that threshold, that other firms would not be disclosed, and kind of thinking would you just disclose those that had been inspected or highlight those that have not, there's a lot of considerations that come into that. We haven't gotten access into certain countries, but maybe today we get access. So do we not include them on the list if we didn't have them today, or even if they'd been inspected, there could be significant Part 1 findings in the inspection. So just the fact that they're inspected doesn't mean that there aren't issues with the firm.

So we're just providing -- you know, the disclosure is providing a list of names. So at any point in time, investors and others can go and see if the firm was registered, inspected with us, if we're able to perform inspections, et cetera. So there's a lot of considerations behind that.

MR. ANDRIYENKO: Yeah, I just wanted to add that a firm may be registered with the PCAOB because of its significant participation in another audit. In this particular one, the firm might have done less than 20 percent, let's say 7 percent. So nonetheless, you may have several of those even though the firm performed less than 20 percent. That would be a registered firm. So if you went with the 20 percent disclosure, you may miss one or two of those firms.

MS. RAND: Okay, Jeff Mahoney, you've got the last word.

MR. MAHONEY: Thank you very much.

The Council generally supports the proposal. I've not issued a comment letter yet. We did issue a comment letter, as you know, in response to the earlier concept release.

I'll just note a few points. This proposal with respect to the engagement partner name, it's generally consistent with the recommendations of the U.S. Treasury Department's Advisory Committee on Audit Profession. That committee was composed of a diverse group of investor, business, academic, and institutional leaders, including the CEO and chairman of one of the big-four accounting firms and some very prominent, respected corporate board members, including members of audit committees of prominent companies.

The committee concluded that mandating the signature of the engagement partner in the auditor's report would "increase transparency and accountability." This recommendation I recall was initially brought to the committee by a former big-four audit partner who believed that this would be a simple change that would make a significant improvement to the auditing profession, and his focus was on accountability. He thought it would improve self-policing of partners at his former firm.

I also note it was explicitly endorsed by Don Nicholiason, who co-chaired that committee, former SEC chief accountant, and who is a board member, member of the audit committee at the time of the Treasury

Department work. It was also explicitly endorsed by a number of investor and other financial statement users, including several public pension funds, capital research and management company, Hermes Equity Ownership Services, Ltd., to name a few.

For those who advocate moving to best practices in other countries, I would note that since 2006 statutory audits of annual consolidated accounts in the European member states have required audit partner signatures, and pre-dating 2006 a number of countries, including Germany, France, Luxemburg and others have required audit partner signatures as well. So it has been in place for quite a long time in other places around the world.

I'd also note that, as I mentioned earlier, a growing number of public companies consistent with Council policies now have an annual vote on the retention of auditors. There is not a lot of information for investors to make that vote, and as Lew pointed out, this would be another data point that over time could provide some relevant information to investors so that they could make a more informed vote on that annual retention vote.

Thank you.

MR. BAUMANN: Thanks, everybody, for your incredible engagement today, your comments pro and con on various positions, but helping us think through very tough issues. So we really appreciate and value the contributions of the SAG members, and it was really demonstrated today.

Hopefully, we'll see many of you or all of you at 6:30 at the Madison.

If not, I'll see you tomorrow morning at 9:00 a.m. Thank you.

[Whereupon, at 5:51 p.m., the meeting was adjourned.]

Improving the Transparency of Audits

Jennifer Rand

Deputy Chief Auditor / Deputy Division Director

Dima Andriyenko

Associate Chief Auditor

Improving the Transparency of Audits

- Proposed Amendments to PCAOB Auditing Standards and Annual Report Form
  - Issued on October 11, 2011
  - Comment period open until January 9, 2012
- Improve transparency of audits by requiring the disclosure of:
  - Engagement partner, and
  - Accounting firms and other persons that took part in the audit

PCAOB
Public Company Accounting Oversight Board

Disclosure of the Engagement Partner

- Builds on the July 28, 2009 Concept Release on Engagement Partner Signature
- Modifies the approach in Concept Release
- Details of the disclosure:
  - Audit Report
    - Engagement partner's name
    - For the most recent reporting period
    - Special situations – multiple-periods, dual-dating
  - Annual Report Form (Form 2)
    - Names of engagement partners

PCAOB
Public Company Accounting Oversight Board

Disclosure of Other Accounting Firms and/or Other Persons That Took Part in the Audit

When assuming responsibility or supervising

- Applicable when the auditor:
  - Assumed responsibility for the work of another firm in accordance with AU sec. 543, *Part of Audit Performed by Other Independent Auditors*,
  - Supervised the work of another firm in accordance with Auditing Standard No. 10, *Supervision of the Audit Engagement*, or
  - Supervised a person not employed by the auditor that performed audit procedures on the audit in accordance with Auditing Standard No. 10.

PCAOB
Public Company Accounting Oversight Board

Disclosure of Other Accounting Firms and/or Other Persons That Took Part in the Audit

When assuming responsibility or supervising

- Exceptions:
  - EQR and Appendix K reviewers
  - Specialists
  - Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting
  - Internal auditors who provided direct assistance in the audit of the financial statements

PCAOB
Public Company Accounting Oversight Board

Disclosure of Other Accounting Firms and/or Other Persons That Took Part in the Audit

When assuming responsibility or supervising

- Details of the disclosure:
  - Name, location of headquarters' office or residence
  - Extent of participation:
    - As of the report date
    - 3% and more of total audit hours – separately
    - Below 3% – other participants may be aggregated or reported separately
- Presentation:
  - Explanatory paragraph, or
  - Explanatory paragraph and appendix

PCAOB
Public Company Accounting Oversight Board

Disclosure of Other Accounting Firms and/or Other Persons That Took Part in the Audit

When dividing responsibility

- Requires disclosure of the other auditor's name and location in the audit report
  - Existing requirement to disclose the portion audited by the other auditor is unchanged
- Removes requirement to obtain permission to disclose the other auditor's name

PCAOB
Public Company Accounting Oversight Board

SAG Member Discussion

SAG members will be invited to comment on the proposed amendments, including the questions raised in the proposing release

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on November 10, 2011 that relates to the Board's proposal on improving transparency through disclosure of engagement partner and certain other participants in audits. The other topics discussed during the November 10, 2011 meeting are not included in this transcript excerpt.

The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at: http://pcaobus.org/News/Webcasts/Pages/11092011_SAGMeeting.aspx.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

STANDING ADVISORY GROUP MEETING

Thursday, November 10, 2011

9:06 a.m.

1201 15th Street, N.W.

Washington, D.C.

PARTICIPANTS

MARTIN BAUMANN
ARCH ARCHAMBAULT
MICHAEL AUERBACH
DENNY BERESFORD
NERI BUKSPAN
ELENA BOZHKOVA
JOE CARCELLO
BRIAN CROTEAU
BOB DACEY
LEW FERGUSON
MIKE GALLAGHER
LIZ GANTNIER
DAN GOELZER
HARRISON GREENE
MICHAEL GURBUTT
ARNOLD HANISH
GAYLEN HANSEN
GAIL HANSON
STEVE HARRIS
MARY HARTMAN MORRIS

KIKO HARVEY
STEPHEN HOMZA
ANTHONY KENDALL
WAYNE KOLINS
LISA LINDSLEY
JEFF MAHONEY
BILL PLATT
STEVE RAFFERTY
JENNIFER RAND
SAM RANZILLA
BARBARA ROPER
KURT SCHACHT
ARNOLD SCHILDER
SCOTT SHOWALTER
DAMON SILVERS
BRIAN SIPES
DAN SLACK
LARRY SMITH
LYNN TURNER
BARBARA VANICH

PARTICIPANTS (CONTINUED)

JOHN WHITE
DENISE WRAY
MEGAN ZIETSMAN

P R O C E E D I N G S

[9:06 a.m.]

MR. BAUMANN: Well, good morning, everybody. Thanks for getting back here so promptly today.

From our perspective, we thought yesterday was an excellent day in terms of getting input on very important matters to us. We hope that everybody has come back with the same level of energy and excitement and enthusiasm to continue the dialogue with the same intensity we had yesterday. So that, we really appreciated that.

Before I get started on today's program, we didn't give -- allocate quite as much time at the end of the day to the transparency project as we had laid out on the agenda, given the timetable. So I just wanted to make sure if anybody had wanted to make any further statement on that and didn't have a chance, we could certainly comment on that.

Barbara?

MS. ROPER: Since I cut out early, I'd

just very quickly say I am particularly enthusiastic about the proposal to include the disclosure of the other firms that are involved in the audits. I think that will be useful, valuable information.

So, and I'll put something in writing before the comment period is up. But, thanks.

MR. BAUMANN: Thank you.

Mike Gallagher?

MR. GALLAGHER: Marty, I'm not sure I know what a better way to do it would be. But my only concern around hours is that hours can be very different in terms of the quality of the hours. We talked about offshoring and so forth, and we're going to be thinking a lot about what might an alternate measure be.

And then the other thing was just the 3 percent. We just thought that was a little bit on the low side, and we'll be thinking about that, too, in terms of alternatives and responding.

MR. BAUMANN: Those are really both good points. We picked a marker and asked people to comment on that marker. We needed to have some sort of a place where you'd cut it off, obviously, but certainly looking for input on that.

And I recognize that some hours in certain areas are higher risk and more quality hours than other hours, but we'll look forward to suggestions on other ways to measure participation in the audit.

Well, this topic does have more interest. Good. Bill Platt?

MR. PLATT: Hey, Marty, thanks.

And I agree with Mike's comments. I guess just the other thing that we're thinking about is that even if hours is a measure, is the disclosure of the percentage for each firm really something that's necessary? So, for example, in the example, I think you have one that's 3 percent, 4 percent, and 5 percent. Does it really matter to disclose the percentages exactly, or might there be ways to bucket it?

For example, firms that play a substantial role and list all of them without an indication of where they are in severity and those that -- others that are above a threshold, but below substantial role. We haven't formed a view yet, but those are some of the things we're thinking about as we think about it.

MR. BAUMANN: Again, we're interested in feedback on how to disclose the participation of other firms. I think many want to see the listing of those firms who played a role and want greater information. And there can be other suggestions of ways to try to combine them, but we're interested in all views, obviously, on the proposal.

Joe Carcello?

MR. CARCELLO: Yes, I want to get maybe some feedback from people from the firms. As we were talking about this last night, one thought -- and I'd be interested in the firms' reaction to this -- would be a higher threshold rather than 3 percent. Let's say 5 or 10. But a lower threshold if the firm is in a country that's not subject to inspection.

MR. GALLAGHER: Yes, Joe. I think that's

something to think about. I think because that definitely gets to an issue I know is of concern to investors. So we'll put that into our mix as we think about the solution.

Again, my issue -- and it really came to life when you guys were talking about offshoring, and somebody mentioned the nature of those hours were very nonjudgmental, very administerial, and that's the way things work in our firm. And to have those hours be viewed as an apples-to-apples with the U.S., where you really do focus on the areas that are just so much more judgmental and more impactful and more important, that was an issue.

But your point around bifurcating between what's subject to inspections and not I think could be a good screen as well.

MR. BAUMANN: Our goal, Joe, is to get the most meaningful information to investors on this in transparency. So these are all suggestions that we'll look forward to seeing in the comment letters.

I see I think it's Lynn Turner and Scott Showalter.

MS. RAND: Regarding inspections or countries where we haven't been able to inspect, if that's the nature of the comments, I'd be interested in further thoughts on when would that go in? For example, we may get agreement today to inspect, but that inspection may not be conducted by us. So is it when the inspection report is issued, when the country just says we would come in?

When would that lower threshold for disclosure, say, in that example, when do you think that would be appropriate? When would it be lifted? Those are other considerations to take in mind.

And just also even inspections, we may inspect, but that we could have significant findings. So it's like you're qualifying just a firm that we haven't been able to be inspected. It could be the firm -- if we did, we wouldn't have significant findings.

I don't know. Maybe we would. But, so just a thought, you know, if that's kind of the nature of the comments, we'd be interested in further thoughts on that to help our thinking.

MR. TURNER: Marty, a couple thoughts. First, on the signature, I think you have two issues. One, you want to make sure that people understand it's the firm, and you don't want to lessen the role of the firm. But at the same time, we all know that what makes an audit work or not is really the audit partner and whether that audit partner is staying on top of it.

And so, I would encourage you to go back and rather than just disclosure have a signature or something like the name of the firm by the name of the partner then, and I think that would work, by far and away, the best.

With respect to the discussion that just ensued about the percentages and all, as I was listening to it yesterday, I actually think your notion of hours is very good. Because what I want to know is who was doing the significant part of the audits? And if someone did contribute a significant number of hours, I would certainly want to know that.

As the chair of an audit committee, we were approached by our audit firm to outsource and outsourced stuff to India. And in this case, it was a mutual fund, and some of the outsourcing, as I recall, was going to be pricing. So I don't think it's all just subjective stuff that's going overseas, and so I would want to know.

I don't know that I'd do just down to 3 percent. Three percent seems, just my gut reaction, is awful small. I may raise that up some. But on the other hand, 20 percent is probably too high, and I do want to know who's doing significant things.

And then, to the last point, I do want to know if that audit firm doing a significant part isn't subject to your inspections. And to Jennifer's question, I'd probably put the cutoff at the date or time that those firms agreed to subject themselves to inspection, and audits before that would have to have the disclosure.

Audits that would become subject to inspection -- might not yet have been inspected, but would be subject to inspections thereafter -- I wouldn't subject to that disclosure. But I would very much like to know how much of the audit is done by a firm that has not been subjected to the PCAOB inspection process. That's very important to me.

MR. BAUMANN: Good. Thanks, Lynn.

And Scott?

MR. SHOWALTER: Yes. I want to just briefly mention an issue about reporting on the partner change. I think we mentioned that yesterday briefly at the end of the day.

In my former life, I was actually the partner that approved all partner changes in KPMG. And in here -- so I sort of have a feeling about all the changes that take place. And I know you carved out the one about if you're just at the end of your term, you don't have to report that one.

I would suggest you consider one other,

and it is if you retire in normal course. You'd be surprised how many times that happens. And so, just trying to think about lessening the burden of reporting would be related to. Obviously, if you are at the end of the 5 years, you don't need to report that. But also some partners get on the account, but because of mandatory retirement age, they don't go to full term.

So I would suggest that as a way of reducing that burden. But you'll be surprised how many partner changes take place for very valid reasons.

MS. RAND: The proposal isn't requiring disclosure, though, of reasons of why the partner change occurred. You would just indicate the name. So --

MR. SHOWALTER: Right.

MS. RAND: So I guess I'm -- yes, if you can clarify that?

MR. SHOWALTER: But you particularly carved out if you're at the end of the 5-year rotation, you don't have to report that. I thought you carved that out, and you said you didn't have to report that.

So I'm suggesting one other one you may want to consider is if you're at the end of your mandatory retirement age, you wouldn't need to report that change either.

MS. RAND: No, the change -- no, you just disclose the name.

MR. SHOWALTER: Right.

MS. RAND: So if there is a change regarding if it's the end of five or four -- whoever is the partner signing the report --

MR. SHOWALTER: Right. Right.

MS. RAND: -- just discloses the name. So it's not --

MR. SHOWALTER: I may have misinterpreted. I thought you carved out if they were at the end of the mandatory rotation, you didn't disclose that one.

MS. RAND: Disclosure of the name would be required in all cases.

MR. SHOWALTER: Okay.

MS. RAND: And reasons are not part of the required disclosure.

MR. SHOWALTER: Okay. Thank you.

MR. BAUMANN: Neri?

MR. BUKSPAN: Just an observation. If you do have the partner sign, why do you need to disclose change? It's obvious.

MR. BAUMANN: I think it's just saying we're not requiring disclosure of change. We're requiring the identification of the partner who is responsible for that engagement that year.

MR. BUKSPAN: Correct. Perfect. Thanks.

MR. BAUMANN: That's what we're requiring.

MR. BUKSPAN: Yes. All right.

MR. BAUMANN: Steve Harris?

MR. HARRIS: Do the firms accumulate this threshold information as a matter of course, and to what extent is there any administrative burden or cost associated with it?

MR. GALLAGHER: Steve, in terms of hours, you mean? In terms of where the work is done? I think that would be relatively easy. I think the answer is yes. We have it, and it would be to those who have done it, it's pretty easy to accumulate.

MR. KOLINS: And after that, I think there's a provision in the release talking about estimates, if you don't have the exact number in hand. So, yes, I kind of agree with Mike. It's probably not significant additional burden. It's in the normal course. It's just one additional thing to get together at the time of the filing.

MR. BAUMANN: And that's one of the reasons why we went with that metric is we believe that firms did capture hours in the normal course, and therefore, it wouldn't be a significant burden.

Sam? I almost missed you over there, Sam.

MR. RANZILLA: I just think there's been talking around each other here on this change in partner. At least the way I understand it is you're not proposing any Form 3 requirement to have a change when a partner changes off an account. I thought it was you're asking the question as to whether or not there ought to be a Form 3 requirement?

To Neri's point, you'll be able to see that the partner changed from one report to another. The way I understood your proposal was that's all we're proposing, but do we need to do something like a Form 8-K in between? But that's not actually a part of the rule proposal, is it?

MR. BAUMANN: Correct.

MR. RANZILLA: Okay. I just wanted to make sure I understood.

MR. BAUMANN: Joe Carcello?

MR. CARCELLO: Real quick, Marty. Have you thought -- or maybe Mike, since he raised the issue of hours. Have you thought about having the disclosure threshold not tied to hours, but tied to valuated hours?

So you would take partner billing times hours, manager billing times hours, staff billing times hours, and then use whatever threshold of the valuated number rather than the raw hours. Because what Mike is saying is not all hours are created equal.

Have you considered that, or what would Mike's reaction be or other firm people? I'm not sure I like it, but it's a way to --

MR. GALLAGHER: I'd be happy to share. My reaction is that I understand why the team went with hours because that is objectively measurable. It's pretty easy to get to, and I'm not sure I've got a better alternative. My only concern was, Joe, just as you articulated, not all hours are created equally. I'm just not sure I have a better one.

That could be another way of thinking about it. What I'm concerned about is do you create potentially a misleading picture around if you use just a pure, objective mathematical calculation? And again, until I have a better solution, hours is as good as anything. But we will be looking hard at how do we best express the qualitative and the quantitative in terms of where the work is done if we're going to go in this direction?

MS. RAND: Just to -- I just want to point out there is Question 28, since there has been much discussion, on this issue about if hours is the appropriate metric or something else. So Question 28 says should the Board require a discussion of the nature of the work performed by other participants in the audit, in addition to the extent of participation as part of the disclosures?

So that would get to, you know, should there be some discussion about, well, they spent a lot of time, but it wasn't on the significant risk areas. So we are asking questions around that because we recognize that could be a consideration.

MR. BAUMANN: Barbara?

MS. ROPER: Just quickly on that point. I think nature of the work performed strikes me as a much better approach than this hours times pay, or whatever, in part because of one of the reasons you outsource is because you are paying less than hours devoted to doing the same things under different pay scales would look like they weren't equivalent when they are. So that doesn't strike me as a particularly good measurement.

But nature of work strikes me as directly relevant to what you want to know with this information is, you know, who's doing the work and how significant is the work that they're doing?

MR. BAUMANN: Sam?

MR. RANZILLA: I agree with Mike that at least where we are is hours appears to be a fairly reasonable place, although we recognize that no measure is going to be perfect. Trying to gauge the hours on the relevance of the hours I think is going to be extraordinarily difficult.

And from my perspective, this is an exercise that will occur in the last 2 weeks of an audit, and the last thing I want the audit partner to be doing is trying to figure out whether it's 6.3 percent or 8.1 percent of the hours through some complicated logarithm that the team had to develop. I'd say we keep it simple and get people focused on actually completing the audit, as opposed to it.

And maybe there are some ways you can bucket hours so that you give -- so, in other words, 10 to 15 percent gets the same value, and then you don't worry about some of the nuances. So my only suggestion is let's try to keep this thing simple. And if it doesn't work, you've always got the chance to amend it, and we'll find a better way.

MR. BAUMANN: That's a good point, Sam. And that was why we came out with hours and the ability to estimate hours reasonably through the end of the period because we didn't want it to interfere with the important aspects of completing the audit. And since this is done in the normal course of events, we thought this would not add significant burden in that regard.

Maybe Arnie Hanish, and maybe we can close down this topic?

MR. HANISH: That would be great.

[Laughter.]

MR. BAUMANN: You get the last word, though.

MR. HANISH: All right. Well, listening to all this, I support Sam 100 percent. We've got to find a way to keep it simple. I hear what you're trying to accomplish. But in the end, we're the ones who are going to pay for all this extra time that they're going to take to try to figure out if it's 3 percent, 4 percent, 5 percent or what are the measures.

The companies are going to pay for this, and let's just, quite frankly, come up with a way to keep it simple and have a threshold at a high enough level that we don't have to deal with small, incremental activities, offshoring, or whatever it might be. But I guess I'd just ask you to, please, keep it simple in the spirit of what you're trying to accomplish.

Thank you.

MR. BAUMANN: Good. Well, thanks for all of those valuable additional comments for us to think about as we go through this, and we'll look forward, obviously, to the comment letters.

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on May 15, 2013 that relates to the Board's proposal on improving transparency through disclosure of engagement partner and certain other participants in audits. The other topics discussed during the May 15, 2013 meeting are not included in this transcript excerpt.

The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at: http://pcaobus.org/News/Webcasts/Pages/05152013_SAG.aspx.

The next one, No. 5, I want to talk about with No. 8, which is identification of the engagement partner and identification of other firms participating in the audit. We've proposed this initially as -- well, we had a concept release on whether or not the engagement partners should sign the audit report. And then we put out a proposal of identifying the engagement partner in the report, and in that proposal also identifying other firms that participate in the audit.

The nature of some of the comments we got back on the two different issues were different, so we decided to separate them, but we continue to think about them as whether or not we should, if we adopt this, adopt it as one item. Jim spent a lot of time on this. I won't spend too much more, but there is a great demand for investors to know who is the audit partner who had primary responsibility for this audit?

The audit partner is identified in many countries around the world. It's becoming increasingly common throughout the European Union, Australia, other places. Investors in the United States want that information. And that information can be very valuable over time, just like knowing which firm did the audit; and different firms have different audit quality; knowing which partner led the audit; and different partners have different skills; investors think has great value. In addition to that, academic research has indicated the identification of the name of the partner in the audit report could increase the accountability of that engagement partner in the performance of his or her procedures.

Right now, as noted in our inspection reports -- and I was reading today the Australian ASIC, their inspector was saying that in 20 percent of their audits they're finding deficiencies. I don't know the exact percentage off-hand in our audits, but it's potentially possibly around 20 percent of the audits that we inspect are not up to PCAOB standards. If auditors felt more accountable by having their name identified in the report, hopefully that number would decrease greatly. So we think that's a very important aspect.

Also, knowing what other firms participated in the audit and the extent of their participation is very important. There can be things as dramatic as some of the reverse mergers that have taken place -- well, I'll just use China as an example -- where an operating company in an emerging market may have merged with a shell company in the United States and there's an auditor signing that report in the United States, but nobody knows that 90 percent of the audit work, or 95 percent of the audit work, is being performed by a firm in that emerging market, or maybe that that firm is not inspected by the PCAOB because the PCAOB can't inspect in that country.

So identifying other participants and their extent of participation, I think, is very important, not just in those scenarios, but also in many U.S. multinationals. A great extent of the audit, it could be 60 or 70 percent of an audit, can be done in other countries by other auditors. Some of those countries we can inspect in. Maybe some we can't. Even if we can, the different firms that are involved in the audit may have very different inspection reports with respect to the quality of their work.

In any event, we think all of that is very valuable to investors. So we are moving forward with improving the transparency of who does the audit, both the engagement partner and other firms employed in the audit.

Denny Beresford?

MR. BERESFORD: I guess first a question. From both yours and Jim's comments earlier, do I gather that this is going to be a final statement as opposed to a re-exposure?

MR. BAUMANN: We are working our way through it.

And a lot of important issues were raised by commenters, including questions around if we're identified does that trigger consent issues? And if there are consent issues, does that trigger additional liability issues? And we're working our way through all of these issues ourselves. In NOCA, with our Office of General Counsel, with the Board. We're in active discussions with the SEC. We have it on here as adoption or reproposal. And I think the final decision on that will still have to be made.

MR. BERESFORD: Okay. The concern I have -- I guess, really, it's hard to respond with just verbal comments without seeing what you have in writing. When you make the comment "great user demand," I know this was in the earlier document as well, and then particularly the comment about "academic research could increase the accountability of the auditor," that's of some concern. I guess almost anything could increase accountability.

This I know was a concern that some people had expressed in both comments at SAG earlier and in comment letters, that many people believe that the accountability of auditors is pretty high now when they have to sign off their responsibility statement in their firm's internal documentation and so forth. And there are some who assert that if their name is stated that they somehow or another will have greater accountability.

I am not aware of the academic research that indicates somehow or another that they could increase accountability. That's something that I guess I would be interested in seeing, not that I would necessarily be qualified to judge that. But any time I hear terms like "could increase accountability," I always get concerned about that, Marty. Anything could do that.

But I remain concerned about the great user demand for naming the audit partner and this notion that somehow or another that the naming of the individual is going to increase the accountability of the auditor. Both of those assertions, particularly the latter, just don't necessarily work for me completely.

MR. BAUMANN: Thanks, Denny. That's probably my word, could increase accountability. I think some of the academic research that we've seen, the academic would probably take exception with me also and say that my research has shown that it does increase accountability if somebody is signing a document in their own name. So that was probably my error in saying it could. But we are carefully looking through research to identify research on this subject, both directions, as we carefully think through this issue.

Chairman Doty?

MR. BAUMANN: You yield to Elizabeth Mooney. Okay. Elizabeth Mooney.

MS. MOONEY: Oh, I just briefly wanted to say, you know, that this project is very encouraging. And from my work with investors internally, they would really welcome this information. Long overdue.

MR. BAUMANN: Thank you, Elizabeth. Jim?

CHAIRMAN DOTY: On the subject of the academic research and the relationship between disclosure and conduct, to partly address what Denny's concern is, there has been a question of whether, in fact, disclosing this information would make the partner more accountable.

In our formulation of this and our view of it, this is a disclosure rule. The interesting thing about the academic research, and if you look at what Ann Vanstraelen at Maastricht and her colleagues at Florida have done, they have situations in which you have a continuous long record of identification of the engagement partner. And the important thing about that is that patterns of conduct, patterns of error, omission and success by the engagement partner emerge over time, just as they do with firms.

This is principally a disclosure rule. The market wants to know whether, in fact, the partner that's on their account is someone who has a long history of bungling audits, restatements that have trailed or followed him or her, or whether this auditor has a history of making tough calls and being an objective auditor.

All academic research, as Denny will I think agree, all academic research has limitations. There are limitations in the sample. There are limitations in the location of the research. There are limitations in what is available in the archival record. That said, I'd just say it is an impressive piece of research on the patterns of conduct in an area in which we are constantly told this is a matter where judgment matters, judgment is called into question, individual aptitude, individual training, individual ethics all matter. And what

Vanstraelen's research shows is that if you start stretching this out over time, investors can go back and can see where the behavioral patterns or the qualifications of the auditor lie.

It is very hard for me to see why -- since in much of the world the memory of man runneth not to the contrary, to the point where investors didn't know their engagement partner -- why would it be true that in the United States of America in the 21st Century you don't know the name of your engagement partner unless you go to the annual meeting? If an investor in BNP Paribas has not only the name but the signature, how can we possibly go forward in a world where we know that emerging markets have different cultural assumptions about what auditors will, in fact, call or do to check the validity of audits and not, as Marty said, know what percentage of our work was performed by auditors in these other cultures?

It is at root a disclosure. It is a disclosure principle. To the extent that anyone says, well, it will mean that auditors have to do more work, it will affect their conduct. What I was trying to say earlier is any good disclosure rule has an indirect effect on conduct.

Our system has rested on the principle, the sunlight principle that is so often cited, that generally the effect of that disclosure, if it is an effect on conduct, is beneficial. It's salutary. What drives this one is it requires no new work by the auditor.

So I would cast it that way, Denny. I think we do know that other people get it, that other people want it, and that in societies and in nation states where it has been made routinely available, there are meaningful conclusions that can be drawn from it.

MR. BAUMANN: Thanks, Jim.

Bob, is your card up from before or again?

MR. GUIDO: It's new. Actually, Denny beat me to it. And I've got a couple observations.

First, I like the idea of bifurcation of this issue. I'm all for transparency, but I do think we're mixing apples and oranges when we talk about signators versus accountability of firms involved, especially if the individual firm that we're talking about is outside the scope of the quality control system of that firm on a global basis. I think that's really important.

On the signator, that troubles me, because if we're talking about the competency of the audit partner's sign-off, to me that is the audit committee's responsibility to do their homework to really ensure you've got the right partner and he or she has not got a bunch of baggage in their background. That is the accountability that's needed in the capital markets. I'm not sure that additional sign-off of an individual in a report means a lot. And, as Jim said, go to the annual meeting if you want to know that person who has a chance of maybe speaking at that meeting. But, more importantly, be careful of unintended consequences with this. I'm really concerned about that. Thank you.

MR. BAUMANN: Thanks, Bob. One of the things that I think we ought to take into account is at meetings like this we have the audit committee members, who are some of the best audit committee members in the world, and not all audit committee members of 11,000 public companies are the same. And investors say they appreciate the work greatly that the audit committee does, as do we, but investors feel they need this information. And not all audit committees apply equal rigor around some of these things. But I understand your comment.

Richard Breeden?

MR. BREEDEN: As a member of a variety of audit committees over the years, I think all audit committees are underappreciated for the immense amount of work they do, but I just wanted to respectfully disagree with the previous comment that the audit committees ought to do all the investigative work and not ask for a simple approach of disclosure of the name and a sign-off from the audit partner. I think there are a number of benefits that can flow from that. You've identified some of them. I think particularly in some of the offshore countries there is a benefit from -- having this identification may give additional focus and stature and a little leverage to the audit engagement partner inside their firm, because they now have certain identification and certain responsibilities as being disclosed directly to investors. And if their firm is telling them or pressuring them to do certain things for certain clients, it may help that they are not nameless and faceless. And it may give them a greater sense of the importance of their individual accountability without actually changing liability. I think that's good.

And I just think it's very hard to argue that something as simple as this identification can't be given to investors without the world collapsing around us. Not every investor will think it's relevant. Some investors may be perfectly happy with the work their audit committee may have done, but others may want to have it. And why not err on the side of giving investors as much relevant data as possible?

MR. BAUMANN: Thanks very much, Richard, for those good comments.

Steve Buller?

MR. BULLER: Thanks, Marty. I don't want to beat a dead horse here, but just a few thoughts. We talk about who the users are of this information, and there are multiple users. There is of course the regulator, the PCAOB. And that information may be useful to them. I'm not sure that disclosing the name of the auditor as a public disclosure is the only way that the PCAOB can get the information. There is a preparer, which is of course the company and the audit committee, which I think has a responsibility to understand who their auditor is and their background. And again, I'm not sure that public disclosure helps that.

What I focus on is information that is actionable. And so we talk to our analysts and to our people who vote proxies. We say is this information actionable to you? So if you see an auditor name and the auditor is associated with a past failure, would you vote a proxy no or would you as an analyst fail to invest in that company because an auditor is associated with a failed audit in the past? And the answer probably is no. What you look to to see is whether or not the firm has adequate controls and procedures in place and look to the integrity of management, but the name of the auditor probably is not something that's going to impact your ultimate decision.

MR. BAUMANN: Thanks, Steve. Well, you can see this topic has engendered interest in our proposals any time we bring it up in conversation, so we're continuing to work deliberately on this project.

I'm not sure whose card was up over there. Oh, Roman Weil. Okay.

MR. WEIL: I'm going to take 45 seconds to remind

Denny of an anecdote. Twenty years ago you were chairman of the FASB and I was on the FASAC. And the FSAB members were complaining that you weren't getting enough information, feedback, thoughts from academics about proposals, exposure drafts and so on. And I said to you the way to get us to write you is to acknowledge our names in the exposure draft. Instead of saying somebody said X, Roman Weil said X. Bill Beaver said Y. And you heard me and you didn't do it and we academics didn't respond. All we have is our egos. If you don't stroke our egos, we're not going to do the work. So there's no empirical evidence here, but my belief is that if you put somebody's name on a comment, they're going to be more careful about the comment. Perhaps give them more. Maybe that doesn't apply to auditors. Maybe it does. So that's the end of the anecdote.

What I don't understand about this discussion is how we can have an auditor who -- bumbling was the word that I think Jim used in describing contents of research. How does an accounting firm let somebody persist who's got a record of bumbling? I would think that publicizing the bumbling will make the auditor go away. No firm's going to let that happen. So we're probably not going to see a history of bumbling. We'll see a history of people being taken off the audit. What I can't figure out is why the bumbling persists even when it's secret.

MR. BAUMANN: Thanks for the anecdote and the views.

I'm sorry, Jerry De St. Paer?

MR. DE ST. PAER: It seems to me that if the name of the auditor is put into the report that people like Roman will soon do academic research to do correlations between restatements and so forth and names of people. It will create a body of data. That body of data does not exist at the moment. So if they're sitting on a audit committee; I've been through this, as many people here, in large companies a number of times, you know a lot of information about the person. And if you're a big client, you really have the resources to dig into that. It seems to me if the body of data that research could provide from this was available, that that would be an additional tool that would be helpful to the audit committee.

MR. BAUMANN: We agree with that. I think that body of data is going to be developed over time. There are probably plenty of companies that want to develop that and think it can be useful to investors, audit committees and others over time.

Jeff Mahoney and then Jennifer Paquette. And then I'd like to move onto another topic.

MR. MAHONEY: Thank you, Marty. As you know this was a recommendation of the Department of Treasury's Advisory Committee on the auditor signature. There was general support within that group from the user community for this proposed change. But also one of the strongest and most articulate supporters of this proposal was a former auditor from one of the largest accounting firms. He pushed very strongly for this to be a proposal of the Committee.

MR. BAUMANN: All right. Thanks.

Jennifer Paquette. And it was pointed out to me that I missed -- Damon had his card up, too. So Jennifer, then Damon Silver. And then we'll move to the next topic.

MS. PAQUETTE: Thank you. I just wanted to circle back to the comment whether the release of the name of the auditor in itself would be a value to investors. And I think I'd like to highlight the fact that investors are making decisions based on a mosaic of information. And any one piece of information may not be the determinant of a buyer/seller whole decision, but what's the importance or value of any of those pieces of information that formulates that eventual decision.

I think that having the name of the engagement partner is important and I think it's a component that investors should be allowed to consider, as well as academics, to evaluate over periods of time. I think it's not something to be discarded in that. It may not impact one particular decision, but it is an important component potentially for investors to make decisions going forward.

MR. BAUMANN: Thank you, Jennifer.

Damon?

MR. SILVER: I just want to follow up on what Jennifer just said and add to it that while this issue is obviously part of a complex mosaic of information involving buying and sell decisions, it is a central piece of information around corporate governance for long-term investors, and particularly for investors who are asked to vote on the audit firm, as is the case typically in medium to large-cap companies. I mean obviously there are firms that do not ask investors to do that, but almost everyone does.

And it's not clear to me, although it's never been raised in this way -- but it's not clear to me that given that the identity of the managing partner in an audit is a known fact, although investors are entirely complying with their fiduciary duties around voting on the audit not knowing who that person is.

MR. BAUMANN: Thanks, Damon. And thanks, everybody, for contributing to the ongoing dialogue around disclosure of the engagement partner and other firms.

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Investor Advisory Group meeting on October 16, 2013 that relates to the Board's proposals (1) Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2 and (2) Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments. The other topics discussed during the October 16, 2013 meeting are not included in this transcript excerpt.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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INVESTOR ADVISORY GROUP

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MEETING

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WEDNESDAY
OCTOBER 16, 2013

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CHAIRMAN HARRIS: In terms of this final general discussion session, I emailed all the Investor Advisory Group members, tasked them what topics they wanted us to discuss. And they indicated the auditors reporting model, audit transparency, the status of the PCAOB's work on the ACAP recommendations which is, I think everybody knows ACAP refers to the report of the Department of the Treasury's 2008 Advisory Committee on the Auditing Profession, the global agenda, which is something that

Anne Simpson raised, oversight of audit committees, and the possibility, although I think there was enough communication that we're probably not going to bring up a fair value accounting.

Since the first two topics are under consideration by the Board, we've made it clear that all comments will be transcribed as have the comments of this entire session. But those first two topics deal with the auditors reporting model and audit transparency.

And I should say that I anticipate that this last hour's discussion will be relatively free-flowing with members discussing issues as they see fit. And hopefully we'll have time before we break for everybody to bring to our attention what is most on his or her mind.

So having said that whether or not we want to start with audit transparency or the audit reporting model, whoever wants to start with that subject matter or either of those raise your tent card and we'll start, Ann, with you first, and then we'll just recognize people as they put up their tent cards. So Ann Yerger?

MEMBER YERGER: This is Ann Yerger, one of the two Anns named here. Well, yes, let me make one comment regarding just auditor report, and it sort of links on to our prior conversation.

I know we were talking a lot about audit committee disclosures to investors, but I do want to stress that certainly the council and personally I'm in favor of an enhanced auditor report to the public.

I appreciate the benefits of sort of that pass/fail model that's in place, but I think there's terrific, important information that the auditors have that I think should be disclosed to the public.

Second, let me comment on the issue of auditor transparency. I think that there is no simpler or less expensive reform that should and could be put in place than requiring the disclosure of the name of the partner on the engagement. I think nothing sharpens the mind more than a signature.

I know we all have to sign documents, public or not, and I pay a lot of attention to that. I think it's an incredibly important reform and I urge the Board to move forward with that. Thank you.

CHAIRMAN HARRIS: Anne Simpson?

MEMBER SIMPSON: Thank you. I'd like to fully support what Ann Yerger has just said. I think the question of transparency on the audit, it's hard to understand who would object to this. Who would not be willing to stand and be held accountable for their own work?

I recall us having similar discussions around boards of directors 20 years ago about knowing who the board were, what their background was and so forth. It seems to me just exactly as we were talking about, the accountability to shareholders which is in real need of being strengthened. That sense of personal accountability is extremely important. So we fully support this and we actually think it will sharpen the discussion in an extremely useful way.

On the auditors reporting model we'll be putting in comments. I think, you know, you will remember, I think it was the first meeting that I came to we looked at the auditor report, was one of the issues in the working group that I participated in.

And my party piece of the day was to illustrate the problem we had as shareholders by reading you the audit report from Bank of America before, during and immediately after the crisis. And there was not one dot or comma different.

So I think if we can't use the audit report to communicate on critical issues, and many of them are listed out in the consultation, then really this is becoming an exercise in pushing paper around. So accountability will be sharpened with transparency, and quality will most definitely be improved with this new scope to the audit.

DIRECTOR DOTY: With transparency there has been an issue raised in the comment process over the original proposal as to whether it was either useful or necessary or appropriate to have the engagement partner disclosed in the audit report, whether the same results could be achieved by having a separate form, a Form 2 filing or a special form that we would devise which would be filed either annually or within a certain period of time following the completion of the audit that would contain this information.

That raises also the question of whether you just stick with the auditor's name, the engagement partner's name, or whether you include more extensive information about his or her qualifications and the audit team. Are there any views you have on that?

MEMBER YERGER: I would strongly prefer that there not be a second or another filing. You know, the more you make folks hunt and peck for something, I think the less valuable it is. I don't know why you would add, you know, make something more complicated that really doesn't have to be.

I don't object, frankly, to having additional information disclosed regarding the background or expertise of the individual. I think that can be helpful as well. But I do think just having the name is a good data point. I think it sharpens the mind and I think it also can give the audit committee good information as well to compare.

MEMBER SIMPSON: Yes, I agree with that. I mean an auditor should be proud of the work they're doing. And in the same way that we know more now about the people who serve on the boards, it's entirely appropriate to have that sort of information about the auditor and the audit partner.

This is entirely complementary to the

improvements we'd like to see to the audit report itself. So if transparency is the watchword, you know, we hope the wind is in your sails. We certainly, as the users, the prime users of this information, fully support what the PCAOB's hoping to achieve.

MEMBER BUETTNER: And Steven, I would just say -- sorry, just to jump in on the back of that. I would say that if you are going to disclose additional information, the tenure, that particular engagement partner's tenure is actually relevant and important information and should be included.

CHAIRMAN HARRIS: Well, as I say, since this is the equivalent of a comment period as well, you're being transcribed, what are your views in terms of the identification of the engagement partner and the identification of other auditors involved in the engagement?

MEMBER BUETTNER: I would agree. I think the more information, frankly, the better, and I would think that to put that on a separate form probably complicates the issue as well. It should be relatively easy to find.

CHAIRMAN HARRIS: Norman?

MEMBER HARRISON: Very quickly on this question. First of all, I violently agree with everything that was just said on the other side of the room. But to take it a step further, as some may recall I was on the working group last year that dealt with the issues around the audit report, and of course we raised this issue at that time.

It's an important transparency issue, but it ties in as well to other things we've talked about today including this issue of whether there is or perhaps why there isn't competition for audit services that's based on quality.

I think that ownership and putting identities with work product, I think, moves us a step in that direction. And it may have some beneficial aspects for compensation issues as well. So I just wanted to point out, I think that it's an important issue for the reasons that both Anns provided but that it ties into a number of things we've talked about today.

CHAIRMAN HARRIS: It's extremely important that we get the temperature of investors on this issue because oftentimes the assertion is made that we only have comment letters from the profession.

I mean the profession's comment letters totally outnumber the comment letters that come from investors or representatives of investors or people who are associated with investors. So, you know, to the extent that you can flush out your arguments either pro or con on these issues, it's important to get it on the record.

Mike?

MEMBER HEAD: Mike Head. And as far as the additional auditors report, obviously I was on the similar subcommittee last time and still feel an auditor's discussion and analysis supplemental report would be very valuable.

And I guess based on what you just said I have no problem with a supplemental filing. I would just then require whoever the lead engagement partner is that is on the supplemental filing has to sign and be shown on the opinion in their name. I'd give them both instead of one or the other.

CHAIRMAN HARRIS: Lynn?

MEMBER TURNER: The getting the auditor's name, I think, would be very good. In fact, I'm shocked that this thing's been debated for 40 years and finally it looks like maybe someone will actually do something about it.

I agree, well, I mean put it this way, I don't think it matters whether you have a separate ADNA or you included in the filing the 10-k or whatever filing it is itself, what I'm concerned about is the information and getting the information that you need and I care less about, you know, which page it's printed on.

With respect to information that would be useful to and impact on someone voting on whether or not to retain the auditor, I think that stuff clearly ought to go into the proxy because that's when investors are most likely to be looking at it and where they're most likely to look at it when making that vote. So I think it probably ought to go in there. I wouldn't do a separate filing out beyond that.

As far as information like tenure and that as long as it's factual, I think that is good. I asked our CIO at Copara to survey all of her analysts and portfolio managers, and one concern that they came back and expressed was asking the auditor to provide information that would be perhaps turned into spin or hype. They were very concerned about that. They wanted it to be factual information and information that the PCAOB or someone at least periodically could test and see that it was actually accurate. So at least in that group they were very concerned about that at Copara.

So factual stuff like here's the tenure of the auditor, here's the experience the audit partner has in auditing that industry, that type of stuff is factual and it would be very helpful.

CHAIRMAN HARRIS: Damon Silvers?

MEMBER SILVERS: Yes, I again want to speak to this question of identifying the partner. Like Lynn, I mean I've been on many bodies that have advised doing this over a period of years and it just continues to surprise me it's not done, particularly against the context of, for example, the fact that individual attorneys sign SEC filings.

The fact that in general we demand a great deal of individual disclosure in disclosure systems generally. This is true with respect to boards of directors, to corporate executives. Corporate executives have to individually sign financial statements.

This is true in, to take a somewhat far-afield example but one which I'm somewhat familiar with, in the regulation of labor organizations. I mean a great deal of information is publicly available about me. I'm just an employee.

And so the idea of sort of some level of personal identification in relationship to important gatekeeper functions strikes me as just totally old hat, and I don't understand why this is controversial, and it's just long overdue.

And it ties to what we were discussing earlier. I mean throughout today in terms of the problem of commodification, the problem of audit committees not necessarily doing what they're supposed to do, the minimum that the PCAOB ought to be doing in this area is arming the various actors in this process so that if they choose to want to do their job seriously they have the basic information necessary to do it. And I would say the most basic information is knowing who's in charge of the audit.

Now I think there is, in addition, I think there is something that has not gotten a lot of attention here which is the question of who really is, whether we really have a consistent view of quote, who is in charge of the audit.

And the Big Four audit firms and now their global networks, is it truly meaningful, what does it mean to say that one of them is in charge of the audit without identifying specific human beings?

I think if we were talking about, you know, a Victorian partnership, you know, a handful of people sitting in an office together, you might be able to say, well, it's a meaningful thing to say that those five people or those ten people are in charge of an audit.

How many tens of thousands of people represent the institution of PwC or E&Y and is it meaningful to identify them as responsible collectively? I don't think it is.

And oddly enough, when we talk about auditor rotation currently we focus on partners. And the idea that we focus on partners there but then don't tell anyone who the partners are, it doesn't make any sense to me.

And so, you know, look, there's always going to be a certain amount of pushback here, but this seems sort of like a minimum thing for the PCAOB to move forward and adopt.

And then I'll make then a comment about the auditor reporting model for a moment and just a general piece which relates to what a number of people said about the danger of boilerplate in any revisions of the auditor reporting model.

Again, having seen a number or requirements for disclosure turn into meaningless mush, it seems to me that if you're going to try to get more information in a meaningful way out of the audit process that then again informs and potentially empowers a variety of actors that surround the, including the audit committee itself, but the actors surrounding the audit committee to try to improve audit quality, that those disclosures really have to either be specific, testable facts of the kind that I think people have discussed here already today, it was the subject, I think, of Ann's presentation, or they have to be kind of processes of requirements that for lack of a better word compel either the auditor or the audit committee to disclose sort of the things that essentially involve grading on a curve.

The example of, tell me the five hardest things you had to deal with in the audit process, the five toughest decisions, the five most marginal things, a process that doesn't allow you to say, oh, we don't have any. We're all fine here.

I can't help but just saying that, you know, the president of the AFL-CIO just came back from his first-ever trip to China. No president of the AFL-CIO has ever been to China since 1955 when the AFL-CIO was established. If you think about the dates involved you'll understand why.

And he had a great trip, but he was constantly in the process of asking people in various settings, so does anything ever go wrong here? Do you all ever have, you know, does the mine ever cave in? And the answer was always, oh no, no, no, no. Never, never, never.

Now we all understood that this was part of a ritual back and forth. We don't want to reproduce that kind of ritual back and forth in what we're doing here. And the way in which I think you avoid that is by not allowing, oh, there's no problem to be an answer.

MEMBER HANSON: Joe Carcello?

And let me ask the people who have commented to also respond to the liability issue associated with the partner identification.

MEMBER CARCELLO: Like the other people who've spoken, I also had a couple of comments about both of these. And in terms of the liability issue, I'm not an attorney so there's people in this room who are in a better position than I to talk about that.

But in terms of the audit report, let me just give you a very brief quote which I'm sure you've seen. "I believe the audit is at a tipping point. The audit report at present is hopeless."

Now that wasn't Damon, that wasn't Lynn, that wasn't either of the Anns. That wasn't me. That was Sir David Tweedie, okay, former Big Four audit partner, a former chairman of the IASB.

You know, this is as an establishment profession as you can get, and I could give you a bunch more quotes like that. So I think it's clear that there's a need.

I went back and I reviewed the transcript of the

September 2011 roundtable, and people who are opposed to your rules always pull out the bogeyman, right, Damon? Unintended consequences. If I've heard that once I've heard that dozens of times.

Here's a quote from Paul Haaga at the Capital Group. "The mere fact that there's more to say than pass or fail we think would give," and there was broad consensus on this within the Capital Group, "we think would give auditors a stronger hand. They would win more arguments and we think that would be a good thing." That's an unintended consequence. All unintended consequences aren't necessarily bad. In fact, that would be a good unintended consequence.

In terms of auditor transparency, there's a growing body of literature that finds that, in fact, identification or signature is helpful. Much of that literature the Board has seen.

As others have already said, CEOs, CFOs, chief accounting officers have certified Ks and other documents for years without huge problems. Most of the developed world require the partner to sign or be identified, virtually all of Europe, China, Australia. Has not been a problem.

And I'll close with another quote from a very bright person. "Common human experience suggests that when an individual is publicly identified with a particular activity that identification usually leads to a higher degree of care and focus." I agree.

CHAIRMAN HARRIS: Mercer Bullard?

MEMBER BULLARD: Sure, just a couple of comments on the, you know, on the liability issue. Often you hear liability risk used as if it is always a bad thing. The issue with liability risk is, is it a good liability risk, and then creating the liability is going to create net social benefits, but you always almost hear it as inherently negative.

I'm all for reducing liability risk that doesn't create net social benefits, but this is one I think you certainly would. And it also reflects a trend that you're probably aware of in that cohorts have been complaining about holding corporate entities liable and no individual's engaged in the contact for which they're being held liable.

Another problem has been true for quite some time. You have corporations in many cases paying damages. The corporation itself pays the damages to shareholders, who of course the shareholders of the corporation paying it, and no individuals are held liable.

You have the SEC now saying it's not going to take no-admit, no-deny settlements anymore and pointing out it's going to go after individuals. And this is precisely what we need to do.

We need to make individuals responsible, because in this sense corporations are not people. Corporations can't take action without an individual having taken that action. So I think that putting the name and the face on the action will have this behavioral modification effect, it also will be the kind of liability risk that you want.

And I think it also, to Anne's point, it really needs to be in the main source of information about the audit. You know, there's a general collective action problem that shareholders have in getting involved in anything. And a big part of the collective action is the information costs, and every time you increase the information costs you make it much less likely shareholders will engage and be active, because as a cost efficiency issue it's just not worth it.

And in talking to reporters this is constantly an issue. They will not write good stories if the information is not easily available.

And, you know, going further, this is an issue that I've been sort of arguing with the SEC about for more than a decade is, it's not clear to me why information is not provided in a way that when you go on useful websites it's provided where you can click a button and get all the combinations of information that you want that would be relevant.

And in the mutual fund world, for example, you should be able to compare ten funds and see their fees. In the context of issuers you should be able to compare the auditors. You should be able to compare who's been with what firm how long, who have been the auditors on different projects, what's the disclosure that is related to PCAOB inspections.

And you see the government using virtually none of that technology in order to make information really useful, and that is what would really make it actionable.

DIRECTOR DOTY: Mercer, you may have to write that to a legal argument on liability up in a comment letter. December the 4th, 60 days, it gives you until February. You'll have plenty of time to do this at the University of Mississippi. But we're going to need the comment, the legal argument on intended and unintended, good and bad litigation costs in the file.

CHAIRMAN HARRIS: That was not a set-up, Mercer.

Norman?

MEMBER HARRISON: Sorry to come back to it, but actually I had two things, one of which I think Mercer and Ann have eloquently described on the issue of liability.

I would second the notion that what the ideal and a probable outcome of engagement partner accountability for the content of an audit report and public visibility with respect to the conduct of the audit, I would think would be a risk mitigation tool not a risk aggravation tool.

Secondly, I'm not a litigator, but at the end of the day when an accounting firm is sued over an allegedly blown audit, I mean they're the deep pocket. I don't know that adding, the identity of the partner comes to life early in the litigation.

Any event through discovery, I don't get the whole thing, to be quite honest with you, about that adds anything of any material with respect to litigation risk or to risks of judgments or outcomes.

The other thing I wanted to mention briefly, and I was putting my board down when the thought popped into my head that when Damon gave so many good analogies I want to offer one more for everyone who's been or is a litigator.

I'm sorry the judge isn't here, but many of us in this room have at one point or another in our lives served as an expert witness in civil litigation. And it's not a perfect analogy but it's close, where we've been asked to examine a body of evidence and to apply judgment and experience to it and render an opinion on one or more issues.

And certainly under the Federal Rules of Evidence we sign the reports, we don't sign our firms' name to the reports. And then we are often challenged as to whether we possess the requisite expertise or not and a judge has to decide and we're deposed and there is sometimes an exhausting level of review and transparency disclosure on the contents of our report.

I'm not suggesting that same level of increase should apply here, but again it goes back to this notion of when someone holds themselves out as a professional it's hard to find many other examples where the individual's name isn't on it.

It really goes back to the issue we discussed earlier in our group's discussion of audit quality indicators where I made the point that we're in that context assessing or measuring or evaluating conduct. It's the same thing here.

The opinion was ultimately reached and rendered by a human being who had authority or responsibility for conducting an audit process. It was not reached and rendered by a limited liability partnership, a fictional legal entity.

Now I'll put my board down. Thank you.

CHAIRMAN HARRIS: Barbara Roper?

MEMBER ROPER: First of all, I agree with everything Mercer said and plan to cosign his letter when he writes it.

We were talking last night, we were kind of joking around about the fact that my sister and I have always said that fear of embarrassment has propelled us towards success. The fear of, you know, of embarrassment keeps us from ever having gone to class not prepared, you know, whatever.

I think it's sort of a frivolous example, but people behave differently when their name is on there. People speak differently when they're making an anonymous comment in the blogs or when their name is attached to a comment.

We know in a variety of context that this does affect people's conduct, and it affects people's conduct, I think, in this way precisely the way we want to affect it, which is to make them think more seriously about just exactly how comfortable they are with the opinion they're rendering.

And so I mean, I think the benefits of this proposal are self-evident. We've been talking about it for years, and I think, you know, I would strongly support the Board moving forward in that area.

CHAIRMAN HARRIS: Anne, I'm not going to recognize you now because I know that you want to talk about the global agenda, and we'll -- well, then if you don't we'll recognize you now and then you can talk about the global agenda. But that was one of the items in the email correspondence that you put on there. But talk about whatever and then we'll --

MEMBER SIMPSON: True enough, but I'm a nonresident alien so I'm honor bound to talk about other places. No, this was, you said, Steve, that you wanted people who had spoke in favor of transparency to address the question of liability, so I'm briefly going to do that.

I agree with what's been said that these corporate forms, be they joint stock companies or partnerships, the corporate forms have a lot of purposes. But these are not moral agents and cannot be held.

So whichever Lord Chief Justice, way back when, said, you know, corporations have neither a body to kick nor a soul to condemn to eternal damnation, at that point we're then back to people. And whatever has been said about political donations and political speech about corporations being persons is nonsense.

So if we want to change behavior, the corporation is not something that will behave differently. It's people that will behave differently, and behavior does change under observation.

If there are concerns about liability it is not to be addressed by drawing a veil over the people who are responsible. If there are issues around litigation and liability they need to be dealt with on their merit, but this would not be the channel I would suggest.

CHAIRMAN HARRIS: Okay, Lynn, then Damon.

MEMBER TURNER: Two points, one to your question of liability and then one back to the basic audit reporting model and your proposal that the staff have recently put out.

First, on the liability issue. In the state of Colorado, engineers and architects, you can add those to the list of people who have to sign in their own personal name, in addition to the CPAs who give expert reports, the boards and all those people.

In fact, when you come down it, the auditors signing these audit reports are about the only people that don't have to put their name down. Everyone else does. And they're the only ones, and there's no good reason why they should be given special privilege whatsoever.

And on liability, I chaired at the board of trustee committee at Copara that oversees our litigation. I can't fathom us deciding whether or not to sue a firm based upon who an individual partner is.

It's going to be based upon whether or not there was an audit report rendered when, in fact, the belief is that it was a failed audit and a clean opinion wasn't warranted.

And in every case I've ever seen go into litigation no one sued, first and foremost, the partner and left the firm off the thing. It's ridiculous to even propose that. It's always going to be the firm that gets sued.

You go into discovery and immediately upon discovery what's the first thing you find out? The partner's name. So the notion that there's audit risk associated here because of liability is a figment of someone's imagination and dreams. It just isn't supported by actual fact.

And in Colorado, and I've checked this with the state Board of Accountancy, you're liable as an individual whether you sign in the firm's name or your own name. So it doesn't affect liability in that respect in any way, fashion, shape or form. So there is no argument on liability on this that is factually based.

The second issue on the audit reporting model on the proposal that a comment, I guess, is due in December, and it's good that something's got out there that people can discuss and comment, I'd just say there has been an issue thrown up with respect to that proposal.

And depending upon how people look at it, and I've gotten different reads from different people, that proposal may or may not be fatally flawed. And the issue is whether or not that proposal as written would require disclosure of the items set forth, and there's some good items there that are set forth, but whether or not disclosure's required based upon the professional view of the auditor or is based upon what the auditing standards themselves would require to be identified as significant matters.

And when the ISB did the old ISB Standard Number 1, that standard was written and said you have to disclose to the audit committee, what, in the professional view of the auditor, is deemed to be something that the auditor would believe would impact on their independence wasn't required to be disclosed from an investor perspective or perspective of the standards.

And what we saw when the standard was written that way was the auditor's continued to violate black and white independence standards but didn't put it in the standards letter itself, and came back and always said, well, in our professional view.

So it became an unenforceable standard when it was written that way because auditors always came back and said, well, it doesn't matter what the standard said because it's what in our professional view was. And so the ISB Standard Number 1 turned out to be basically a fatally flawed and worthless standard.

Bill Allen is someone you might recall tried to fix it. He wrote a letter shortly after it was issued, after he and the other three members recognized the fatal flaw, but it never got it fixed and it's never worked.

There's been many, many instances of black and white violations that never were told to audit committees in that black and white letter.

So depending upon how you've written it, if you've written it to say in the professional view of the auditor this is what they would have to disclose, that document is fatally flawed and will never work. And we've got that experience behind us.

If it's written from the perspective of, here are the significant matters you would have to disclose if the auditing standards would deem those to be significant matters, then you're okay. And I've heard different interpretations of that standard.

DIRECTOR DOTY: This is a very valid point, and I think the limiting case you lay out, Lynn, is one that the proposal avoids. The proposal requires a discussion of what were the difficult auditor judgments, the difficult issues of supporting opinion, the complex issues.

It further goes forward to say if you decide there are none you must explain why. You must document how you got to the decision that there were none. And it goes further to say that it would be not expected that there would be many audits in which the auditor could conclude there were no critical accounting matters.

It directs the auditor to decide and to discuss what were the critical audit matters on the basis of, I think, a stated as well as implied assumption that almost any audit involves some critical audit matters.

And the documentation is required of the decision either way to exclude, if you exclude something that normally would have been reported to the audit committee you've got to explain why. You've got to document the reason why that would not be a critical audit matter in this case.

MEMBER TURNER: But are those critical audit matters determined in accordance with the standards, or critical audit matters determined in the professional view of the auditor? And that's the question.

MR. BAUMANN: Well, Lynn, you know, this is a lengthy discussion that we could have and it's probably beyond this room and we'll appreciate your comment letter when it comes in and we'll address it.

But clearly, as Jim just mentioned a moment ago, the critical audit matters we indicated would be things that the auditor documented under AS 3 requirements, for documentation requirements.

Would likely be things that the engagement quality review are under AS 7 had looked at as the most significant judgments in the audit. Would likely be things that the auditor communicated to the audit committee in connection with AS 16.

And went on to say as Jim indicated, if you have such matters that would appear to meet critical audit matters, and have those attributes of having been discussed with the engagement quality review and discussed with the audit committee, documented as a difficult matter, consulted on with the national office, and it's not disclosed as a critical audit matter, then the auditor has to document on the work papers what was the rationale why that was not a critical matter.

And that documentation, we believe, would be subject then to inspection to understand is that a reasonable rationale why that wasn't a critical audit matter. So I think it's somewhere in between where you're saying, is it directly driven by the audit standards or judgment?

There's definitely judgment involved, but that judgment is linked to existing auditing disclosure requirements in communications with audit committees, documentation requirements under AS 3 and things that are reviewed by the EQR under AS 7.

MEMBER TURNER: So are you saying, Marty, that if the auditing standards would deem whatever the matter was that it should have been a significant matter? For whatever reason the auditor decided not to make it a significant matter then that would be a deficiency in the report?

MR. BAUMANN: Yes. I am saying that once again if this is a matter that when somebody looks at it and sees the AS 3 required documentation of the most difficult matters, and there's a whole list of AS 3 of what has to be documented, the most difficult subjective matters in the audit, then looks at what was reviewed by the engagement quality reviewer, and the same matters that matter was a high priority for the engagement quality reviewer, what was discussed with the audit committee, the same matter was communicated and was a significant discussion matter with the audit committee, if that matter does not make it into a critical audit matter, I think it would be very difficult for an auditor to justify how they concluded that that was not a critical matter.

MEMBER TURNER: Yes, but I don't think that things will get to that point, Marty. We saw that with the ISB-1 thing. The bottom line was it didn't get to that point of being discussed with the audit committee and that was the problem.

MR. BAUMANN: Well, that would be a violation of AS 16 then, if things are missed and not discussed with the audit committee that should be, and I think that would be something we would inspect against as well.

So if people are omitting required disclosures to the audit committee, that itself is a problem and then we could have an inspection finding with respect to that also.

CHAIRMAN HARRIS: Lynn, let me jump in for a second. Two things. First, we do look forward to your comment letter. Second, I do think you raise a very valid question with respect to the objectivity of the standard and to the extent that there's judgment and whether or not there could be tightened. You have five Board members with five different viewpoints on it, so I think you ought to reduce your comments to writing which I think we'll review very carefully.

Damon, you know, go ahead, and then Mercer. And then I would like to, because, you know, we're going to be approaching the end of the session, I did raise other issues that were brought to the attention of the Board in terms of what other people might want to bring up.

But to the extent that anybody has an issue that they want to bring to our attention, I want to go right the way around the room and spend the last 15 minutes, you know, for you to tell us what you want us to hear, and to the SEC as well.

I'm sorry. Brian, your card is up so we'll recognize you and then we'll go to Mercer.

MR. CROTEAU: Well, thanks, and it does relate to the point we were just talking about, so I'll take the opportunity. I think it's a great discussion we're having relative to what would be a critical matter, and certainly there's an open comment period.

I think one of the important questions to think about, really, is the criteria for what is a critical audit matter sufficiently objective or should it be any more objective than it is? And I think the PCAOB's asked some thoughtful questions in the release around that.

Certainly Marty's described the documentation and others have described the documentation requirements, you know, the question can be asked to whether documentation requirements are enough to overcome what some might view as a more subjective definition to begin with.

So very interested in comments as to whether there's improvement that can or should be made to the definition of a critical audit matter in the first instance, but I think the PCAOB's at least been very thoughtful in trying to put forth an initial proposal in that regard. But I think it's an area that could benefit from some focus and public comment.

MEMBER HANSON: Mercer?

MEMBER BULLARD: I'm just trying to figure out the dynamics here. So it sounds like there are scenarios in which the auditor will be exercising discretion, and whichever way they go is going to determine whether they have to disclose something as a significant issue.

And if that's true, why wouldn't the disclosure requirement give them a very strong incentive not to take those steps? In other words, decide differently, not bring something to the committee precisely because that will trigger a different requirement where they don't want disclosure.

Or is it objections, there's no discretion for them to make those because it sounds like they're taking it up the chain was one thing you mentioned. If I'm the auditor I'm not going to take it up the chain if it means I'm going to get public disclosure out of that. So how does that dynamic work?

MR. BAUMANN: Well, again I think it's rather than getting into a lengthy discussion about this item, I think it's important to read the proposal, read the standards and raise questions if you think that the way that it's crafted leaves the ability for an auditor to not disclose things and to not meet the spirit of what we're trying to get at here.

So I'll support what Brian said, and that is we worked really hard to get a standard that we think would improve disclosures to investors about what's critical in the audit. It's hard to mandate those things that were most difficult to the auditor because it's whatever was most difficult to the auditor in those particular circumstances. So you can't say what they'd be, it was what was difficult in that particular audit.

So as Damon said before, name the five things that were most difficult. Well, we could put a number five on it. We actually thought about that and we asked questions, should we have a minimum number? So that actually was a question in the release that would help.

Should there be any situations where you would not have critical audit matters? That's another situation, another question we asked. So there's lots of ways in which people can comment to us that listen, you can make this tighter in your final document by doing X, Y, or Z. And I think that's very valuable comment to get that.

But that's sort of the way it's structured. And we had a conversation way back when, Damon, you and I together and at the SAG also about, Marty, just have them disclose the five toughest matters. And that's sort of what this is.

But we are looking for valuable comment about how to make this crisp and tight so that this really does achieve the objectives and that matters aren't avoided by, well, I'm not going to communicate this to the audit committee because then it will look like it's too critical.

So you're right. We want to avoid those consequences, but we want to think about all those things. And if in the proposal, if there are ways in which people think that it can be fixed and made even better, we're looking forward to those comments and we'll move forward on that. We certainly want to have a strong standard here that greatly improves the audit report.

MEMBER HANSON: Damon, did your card go back up or --

MEMBER SILVERS: It was up before.

MEMBER HANSON: Oh, I'm sorry. Oh, I thought I heard you before. By all means, go ahead.

MEMBER SILVERS: Well, I had two things. Now after Marty spoke I've got three. Look, at first it was in response to your question about liability. I want to just even intensify what Lynn said.

I don't understand the argument about liability from the auditing firms. As Lynn pointed out it is a trivial matter in litigation to get the name of the partner. And the notion that somehow the lack of disclosure of the name in non-litigation situations is going to promote, that that's somehow protection against litigation, I think is not a serious argument.

And I would urge the PCAOB to the extent that auditors are making a litigation argument, and this doesn't even get into Mercer's point, I'm just saying I don't get what the argument is. And I think the PCAOB needs to sort of insist people who make this argument be specific as to what they think exactly is going to happen. But I think if you follow the thread of that logic through a little bit you get to a deeper issue.

So if litigation's not the point, what is the point? Why do investors want to see this name? And the reason is precisely because you want to be able to engage in types of accountability that don't rise to litigation, and you want to facilitate that on the part of investors who may not have the muscle to get it on their own.

Because I think, in addition to the fact that litigation can get that name, okay, if you hold three percent of a company's stock you can probably get that name. It's probably not that hard, in fact, to get that name.

What's absent though is in this regime, the existing regime we have, is the sense of a level playing field in the securities markets that is what, in fact, the audit report is all about in the first place.

I mean why, you know, we've had this conversation today and people have talked about what is an audit report for? Well, increasingly, I think, and I think Joe said this earlier that there's a real danger here of the diminishment of the value of the audit report in general.

And what's going on right now, and it's visible to me in terms of at least what is now, you know, ten years of this body's existence and going back to the period before this body was created, this body being the PCAOB, that what has increasingly happened, I think, is that the securities markets have become for a variety of different reasons, and a lot of people have talked about high-speed trading as part of this but that's not the only driver of this, the securities markets have become increasingly hostile to the involvement of investors who lack enormous scale and enormous resources.

If you have enormous scale and enormous resources, there's a sense in which maybe you don't need an audit report. You can send your own team of financial experts in to talk to a public company.

You've got a variety of ways, if you've got that kind of scale. You know, if you're at Black Rock you can have that conversation, closed doors, demand whatever metrics you want to get whatever you get and make your own conclusions.

Maybe for any given public company there are 20 investors who can do that. Everybody else is kind of left in the dark. As financial statements have become more complex, as the ability of firms to essentially play games with financial statements has grown, and in parallel, as trading processes have become less friendly to smaller investors, you have an overall drift away from a level playing field in the markets. Identifying auditors by name is by no means a solution to this problem broadly writ, but it pushes back on it a little bit.

DIRECTOR DOTY: I've got to ask you, is this about making small investors feel good about large, complex and impersonal markets or is it about having them think they have information that other people have and feel better about it that way, or is there something of use to them?

Of what utility is it for them to have the information given the situation they're in, which you and Ann have so articulated?

MEMBER SILVERS: I think it's a very fair question, and I think that there are two answers that go beyond feel-goodism here. I think the first is, is that it will be possible for a wide variety of actors, academic actors, providers of public, the press and other sort of providers of public analysis to look at the pay-driven individual partners across companies that is, and tell investors things that are meaningful.

The second thing I think is possible is, is that I think there is a landscape between, really, the small investor, the individual investor, there's a landscape between that party and the very largest players who have the resources and the market leverage to extract information sort of willy-nilly from companies.

And those, if you look at the history of corporate governance reform in the United States, it's often been those investors who have pushed the envelope on things and, you know, using publicly available data as opposed to what they can extract as a private party.

I think that was certainly true in the initial push for auditor independence, in the push around Board independence. A number of those funds are ones, this is certainly true of a lot of funds that are collectively bargained in one or another. I don't think this is a transformative move in relation to any of these dynamics, but I think it pushes it the right way. And I think it's not feel-goodism.

CHAIRMAN HARRIS: Well, I want to begin the wrap-up period here and just start, Brandon, with you and just go right the way around in terms of any final parting shots that you would like to leave the Board with in terms of what we should be doing to improve audit quality and protect investors.

MEMBER BECKER: Well, I do think that the signature makes a lot of sense, the same way we do it with mutual fund portfolio managers and the like where the SEC has been much more aggressive. I discount the liability issues for the various and other sundry reasons.

The context of the discussion today though, I think, really goes to the audit quality indicators in the morning, getting those built into the governance process. Because as Curt highlighted and as various have referred, basically the relevancy of the audit, getting more of that quality and ultimately going to the quality of earnings so that there is more value extracted rather than check the box from the audit would be valuable.

I should say, however, that while greater transparency to the audit is important, we would be worried if we lost the pass/fail. We think that we would not want to see the greater transparency degrade the pass/fail. I don't think it needs to, but I did want to at least highlight our concern along those lines.

CHAIRMAN HARRIS: Curt?

MEMBER BUSER: So I think the audit quality initiatives are key. I think that, you know, what I'd like to see happen is the PCAOB start to get in a position where it can comment on, you know, what we see in improvements in audit quality and what's the state of the profession and be able to answer a lot of the questions that are unknown about the quality of the people that are carrying this out. So I think we need to know, kind of, is the profession having the right people in place or not?

CHAIRMAN HARRIS: Grant?

MEMBER CALLERY: I think I'd like to see the Board take a further look into some of the issues, the governance issues that we talked about where you do have access to information. Because I think a lot of the sort of presumptive reactions that people have were based on very surface level knowledge and that you really ought to delve into it and see whether there's "there" there, and then move accordingly from there.

CHAIRMAN HARRIS: Grant, we certainly welcome you to the Investor Advisory Group.

MEMBER WALSH: Yes, I've been trying to think about how investors will react to a lot of what we've talked about today, and I think it's hard to imagine a situation where investors go in and short stocks of companies whose audit partners have shown mistakes in the past and buy really strong audit companies.

I don't know that that's going to happen, and before we get to that point we'll see trading cards with auditors on the face, and I think at that point you really do end the worry about commoditization.

But I really do have a sense that we need to get to more information, and I don't know how the market will use what we've talked about with audit quality indicators or how they're going to use identification of the partners responsible for the audit, perhaps the identification of the audit committee chairman.

I don't know how it will be used, but I think that there's an invisible hand that will ferret that information out and it's a process and we'll get better at this, and maybe we have 70 indicators that we disclose Round 1, it turns out that there 35 that are helpful. The market will figure that out and migrate towards those indicators.

And so I'm all in favor of more information rather than less, even if we don't know how it'll be used or which ones are going to be the most helpful. But I'm very encouraged by what we're talking about today.

CHAIRMAN HARRIS: Thank you.

Damon?

MEMBER SILVERS: Since the chairman caught me in my train of thought I left out my comment from Marty. I'm just going to make that. I think it's quite dangerous to have even with the caveat that you don't expect to see very many of them, I think, in the reporting model, it's very dangerous to have an option of saying no, we don't have any serious issues.

I think it raises this issue of then all of sudden auditors are, it becomes tricky to push issues in the internal process, I think, if you do that. I stand by what I said to you when however long ago that you were citing, which is put a number on it, one, two, three, five, whatever that number is and everyone has to disclose what that is. Every audit has an issue. It's not possible to have an audit without an issue.

CHAIRMAN HARRIS: Norman?

MEMBER HARRISON: Nothing new to add other than to thank you all for having us and for inviting us to be participants. And I'll say only we've covered a lot of ground today, not only in the panel-specific discussions but certainly here at the end.

And, you know, I think when you take a step back you realize that the issue of quality is the silver thread that connects it all and then the need to define it, to measure it, to report it and to use it as a tool for improving or providing safeguards around audit quality, I think there's further work to be done.

So by way of parting comment I'll say that rather than show up again next year, you know, see where we are, I'm happy to continue being supportive in any way I can as the staff moves forward.

CHAIRMAN HARRIS: Thank you very much.

Tony? Tony Sondhi?

MEMBER SONDHI: Thank you. I'd like to simply emphasize what I thought was the two main things I said this morning. One is that as Norman just said, audit quality is the critical issue.

But if you develop indicators that are based on audit firm quality and audit process and not focus on audit quality, I think we're going to miss very significant opportunity. I think it's absolutely critical that we focus on audit quality.

The second point I want to make is that what the discussion today showed is that there are concerns. I understand that the sort of the nexus where the output based indicators meet, financial reporting quality and some of the other issues that Lynn and some other people have raised, and Joe, I think, I think that although that nexus is a difficult one, I think that should not get in the way of developing really good audit quality indicators. And being very firm, the complexity shouldn't get in the way.

CHAIRMAN HARRIS: Bob?

MEMBER BUETTNER: I hope this is not off-topic, but as you said you were hoping to get what was on our minds at this time. My question are something that I think at some point I'd like more explanation on was the issue around the Chinese reverse merger issues.

And most specifically, in fact, this might just go to harmonization of global accounting standards, but the differentials that existed between the Chinese accounts and the accounts that were ultimately reported here, I think the collapse that we saw and the investor losses that we saw across a wide range of those companies was really a black mark on the U.S. capital markets.

And so, really, my questions are more around, one, how was this allowed to happen? In other words, that these companies were able to, sort of, from an accounting and audit perspective slip under the radar? And then secondarily, are there processes that we can put in place to ensure that situations like that do not recur again?

DIRECTOR DOTY: Audits were ostensibly performed where we have reason to believe now there was no work done. In some cases by registered firms within China, in some cases by registered firms in the United States which were relying on firms in China.

That situation has received a lot of attention both in the area of enforcement, which will continue as an interest that we have, but also in our relations with the People's Republic we are continuing to press for a joint inspection regime.

I think that unless we could get to a position in which our division of inspections can go to China and can satisfy themselves about the quality of the audits that are being used to issue securities or trade securities in the secondary market here, we will have to move toward deregistration of firms and that will have, of course, implications for markets. It'll be something that we will have to work out with our colleagues at the SEC.

CHAIRMAN HARRIS: Anne Simpson?

MEMBER SIMPSON: Yes, I had two points, one of which I think Robert has referred to. So CalPERS invests in 47 markets worldwide and regulation is a global game. It's not just of account audits, it's accounting, securities law, capital adequacy for banks, you name it.

And what struck, although there are the multiplicity of regulators, the core of the regulatee is the Big Four, maybe plus two. So the work that you're doing to cooperate and coordinate is really important, but I hope it's also a weather eye to the fact that these public agencies are stumbling over themselves and each other dealing with four business networks.

And I don't know what the solution to that is, but that is something I would have talked about. So I really encourage that work that you're doing and thank you very much for it. If there's anything more we on the investor side can do to support you please let me know.

And the other thing, my closing comment is that with regard to audit, shareholders are weak and ill-informed. And you can do something about the ill-informed part and our friends at the SEC can do something about the weak part.

So I hope that we can make progress on this, because all this good work on quality and disclosure and all the rest of it, if we can't, you know, both speak softly but carry the big stick, if there's no stick, if we can't move in as the shareholders, it would be Teddy Roosevelt in style, it won't work.

But thank you for what you're doing. We greatly appreciate it. I think the PCAOB is doing tremendous work. We very much value what you do. Thank you.

CHAIRMAN HARRIS: Ann Yerger?

MEMBER YERGER: Well, let me echo the thank you. This is an energized Board and we really appreciate it. You've been bold, I think, recommending and proposing reforms, and I think on behalf of investors and the

Council we really appreciate it.

I would urge you to maybe get one easy or seemingly easy win and that's the auditor or the engagement partner transparency. I think it just seems like that's not a complicated reform and it would be great to push that across the finish line.

I think the second point is as everyone else has said, this is all about audit quality. I think the work that you're doing on audit quality indicators is profoundly important so I commend you to move forward with that, but also to not let the perfect be the enemy of the good.

I don't know that there's one perfect prescription for how to do this and this could get analyzed forever without a resolution. I think it's important to move along. I do believe public disclosure of audit quality indicators is very important.

I do think it's an interim step issuing some guidance, additional guidance to audit committees so they have a better arsenal of questions to be asking on audit quality, I think could be very helpful as well.

CHAIRMAN HARRIS: Mercer?

MEMBER BULLARD: I just would probably emphasize that the way I see the quality issue is really something bigger. It's more of a value-added issue. It's not so much quality to prevent fraud, it's to make the case for public companies. Because from the securities law perspective, you know, what I see is, 15 years ago there was twice as many companies on the New York Stock Exchange as there are now.

Over the last couple of years more money was raised in private markets in IPOs -- than in IPOs. You see Facebook trading on private markets millions of shares a day, so liquidity is not going out the window is a reason to an IPO.

You have the JOBS Act that's now eliminated, and this is the first meeting since the SEC adopted rules, eliminated the general solicitation in advertising which, I think, will have a geometric effect on the advantageousness of private offerings.

JOBS Act has also expanded the number of investors that require you to go public and also excluded certain investors from being counted, and the SEC takes a very liberal view as to how you count pass-through entities toward that and that will also another reason you'll have fewer public companies.

It's hard to know where this is all going to go. The trend is pretty clear, but I think the brand that is the public company, especially with steps that have essentially made what it means to be a public company be different things for different companies, 404 here, 404 not there, has really put the public company brand at risk.

And if you want to look at a specific threat to the importance of honest accounting, look at the filing of confidential registration statements, where I looked at about the last ten that have been done and you see three to eight confidential filings. And these were prompted, this rule was prompted by a company that you all recall went public and had repeatedly to go back to its registration and correct what were pretty blatant accounting abuses.

If you were to go into those confidential filings and you did a lot of work you'd probably find the same thing. And that is, you know, this is a market that is becoming more and more for retail investors only.

If you are going to go public now, it seems to me the biggest reason to do so is to sell to the least sophisticated group, because you will have gotten all the money you needed out of institutional investors and accredited investors before you go public. Because, you know, one of the key classes I teach is the pros and cons of an IPO, and most of the pros are disappearing.

CHAIRMAN HARRIS: Pete?

MEMBER NACHTWEY: Thanks Steve, and thanks to the Board for putting this group together and reaching out to us for input, and more importantly, maybe the staff for doing all the hard work to pull it off, so much appreciated.

Maybe three quick comments I'll canter through. One, I do agree audit quality indicators is a key thing coming out of the discussion today, but I think it has to be married up with heightened expectations for audit committees because there's got to be two levels of this.

One that I think the PCAOB is ideally suited for of looking at firm level quality, but where the rubber meets the road is individual audits and audit committees are going to be in the best position to really judge, are they getting quality, both people, the scope and the work plan that's put in place?

And then hat in hand with that has to come kind of heightened focus on what's a financial expert particularly for saying the auditors, the external auditors and the internal auditors are reporting to the audit committee, making sure we have somebody who is able to, on those audit committees, really manage that work.

Second topic, and I'm mindful of something. Curt will know the author of this statement, but everything's been said just not everybody's said it, but I'll jump in on the audit opinion, audit reporting model.

One, I do agree around the transparency on having audit partners. I don't why that would be any different than the professions that Lynn listed or responsibilities that people like I have to certify financial statements that we submit to the SEC.

On the other hand I think we've got to also be mindful of the dichotomy that we can't be aghast when we see marketing material with firms saying well, the individual signing partner has responsibility. So we've got to be careful a little bit of what we wish for, and

I think at the end of the day be mindful of the fact that we are, when we're buying an audit from a firm we're buying the firm and that's what we want. But I do agree it crystallizes the focus of that partner who ultimately has the signing pen.

But there were a couple other aspects of the reporting model. The critical accounting matters I do think can be an interesting expansion, but I think we've got to be practical about it. So how does that marry up with management's disclosure on critical accounting policies and estimates?

I would envision there would be a pretty parallel set of disclosures there, so if it's just duplicative do we get anything or do we just put more cost and time into the process of getting audits and financial statements prepared?

So, you know, whether we kind of road test that or find some way to say what's the practical aspects of it, then how do we make sure it doesn't end up being heavily lawyered, and no disservice to the legal profession but they're going to represent their clients, in this case the Big Four.

If we end up with 50 pages of boilerplate in their audit opinions and we can't find the pass/fail, which I think when I think I talk to our portfolio managers and analysts who are managing $650 billion of investor money, the thing they want to know at the end of the day, did they pass or did they fail? Because I don't have enough time to go through all the rest of the aspects.

And then last but not least, being the author of the fair value accounting, and I won't spend a lot of time on it, Steve, because I know it's an issue we could we spend eons on, but just to be clear on what I think the issue is there, which is the procyclicality of fair value accounting combined with the false precision that when you take numbers out to two decimal places and it's fair value and it's judgments and estimates on top of judgments and estimates it's important that, I think, somehow we have investors understand a), that level of imprecision, and b) the procyclicality that's just as bad in an environment that's being fueled by quantitative easing as it was in '09 and '10 when there was a dramatic cycle down. So enough said. Thank you.

CHAIRMAN HARRIS: Barbara Roper?

MEMBER ROPER: I think at some point in all of these meetings I say that the audit only has value to investors if it's conducted with an appropriate degree of professional skepticism. And we have seen a persistent problem with insufficient professional skepticism which, I think, is arguably the main driver of low audit quality.

So I would sort of review each of these issues we've talked about today through that lens of to what degree is there potential through whether it's audit quality indicators or whatever, to drive a higher degree of professional skepticism in the conduct of audits?

And toward that end, I actually think it's the issues that Grant's subcommittee was working on in terms of incentives and governance where there's rather a largely unexplored potential for further progress in terms of driving toward a more independent and skeptical audit.

CHAIRMAN HARRIS: Bob Tarola?

MEMBER TAROLA: Yes, thanks Steve. I guess I want to say I hope that you don't marginalize the audit committee. They're the primary body responsible to the shareholders. And I'm going to also be in favor of a pass/fail model, an auditor report for that very reason, is that if there are difficulties in auditing and enterprise let the audit committee explain those difficulties. The management of the enterprise has an obligation to do good accounting and disclose how they did it.

So if an auditor just comes behind them and says they did good accounting, we audited it and we're happy with it, I'm not sure what the benefit of that is. But if you have the audit committee explain how they monitored that audit with respect to those difficult issues, I think the investors, I think the system works better. Let me just say that.

I am in favor of transparency of the signer of the audit opinion. I think that there should be no difference between that signature and that of a CFO on the financial statements. And also I think if you're going to support the audit committee's role then you also have to look at the qualification question.

CHAIRMAN HARRIS: Thank you Bob.

Joe Carcello?

MEMBER CARCELLO: Yes. In the interest of time I think we're talking about the right things. I think the Board's looking at the right issues. I just would second what Ann Yerger said, let's get some things across the goal line.

CHAIRMAN HARRIS: Judge Sporkin, we've just gone around the table concluding and we've asked everybody for their final comment in terms of what they would most like the Board to address in terms of improving audit quality and investor protection.

I know you've mentioned 10A in the past but whatever you want to wrap this up with would be most appreciated, as long as you keep it under five minutes.

JUDGE SPORKIN: No, I've just got a few seconds. I agree with Chairman Doty's view on the signature on the audit. I think that the person who has done it has got to sign it. I think that should be a no-brainer.

The only other thing I think you, I didn't hear what whether there was much discussion, but 10A of the Securities Exchange Act is an extremely important provision, and I would like to see some emphasis on that provision. Because I do believe that it is not being followed the way the drafters of the provision want it to be followed. So I would hope that you would put that on your agenda. Thank you.

CHAIRMAN HARRIS: Judge, in terms of the transparency, since there are transcript, this is, you know, an open release, why do you support it?

JUDGE SPORKIN: Well, when I say it's a no-brainer is why shouldn't the person who has been involved sign it? I don't understand why there should be any question. It seems to me that if he knows he's got to sign it he knows it's got to be credible.

I'll tell you this as a lawyer that when I sign a pleading in court I want to make sure that it has what I wanted. There have been pleadings that I have, even though I've been co-counsel in cases, there have been pleadings that I have refused to sign because it didn't have what I thought it should have.

And it seems to me the accountant will have to make sure that he believes in it before he puts his signature. He's not going to put his signature on something that he has any question with. He's just not going to sign it.

CHAIRMAN HARRIS: Are there any final closing comments that Board members would like to make, then I'll just make a very brief one? No? Well, in that case I want to thank everybody for what I considered to be an excellent meeting.

We very much appreciate the leadership of the working group members, all the members on the working group, the entire membership of the Investor Advisory Group, and I personally especially want to thank Nina Mojiri-Azad and Tope Folarin.

Pete, you hit a home run. You mentioned that this is not possible without really extraordinary staff support. And I'm very lucky because I've had that support. And so Nina, wherever you are I want to thank you. And Tope, I want to thank you.

And Joann, you set the marker and I can think we're carrying the ball forward with respect to our Investor Advisory Group. So thank everybody for participating.

(Whereupon, the foregoing matter was concluded at 5:06 p.m.)

NOTICE: This is an unofficial transcript of the portions of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on June 18, 2015 that relate to the Board's proposal on improving transparency through disclosure of engagement partner and certain other participants in audits. The other topics discussed during the June 18, 2015 meeting are not included in this transcript excerpt.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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STANDING ADVISORY GROUP

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MEETING

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THURSDAY
JUNE 18, 2015

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The Standing Advisory Group met in the Federal Hall of the Washington Plaza Hotel, 10 Thomas Circle NW, Washington, DC, at 8:30 p.m., Martin Baumann, Standing Advisory Group Chairman, presiding.

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MR. DOTY: Thank you, Marty. I've assured Marty on several occasions that to preserve this slot of an important meeting it requires that some of you find this useful and helpful. So you can get me off of this with the appropriate advice to Marty.

But it is my chance to thank you again for coming, for giving us your guidance, for providing the kind of critical insight on our standard setting projects that we require.

I would note, of course, at the outset I speak only for myself here, in this overview of where we're going and what we're doing. I express no views about the -- other than my own, none on behalf of the Board or other members. But as I said last night, your participation gives us a critical piece of input and guidance.

We'll be discussing these significant standards that Marty has discussed, and consulting on work on auditing as we go forward. But I want to briefly touch on the progress of a couple of projects that we've discussed a number of times.

And one is enhancing transparency by naming the engagement partner and certain other firms in an audit. And also, our project on audit quality indicators, which we'll say something about.

As discussed in the last meeting, we've been considering using a form, a PCAOB form, as an alternative to requiring that names and information be provided about the engagement in the audit report.

And it's my hope that this will allay auditors' concerns on liability issues that they perceived in connection with the disclosure of the audit engagement partners' name, and the other participating firms.

We're ready to seek comment on a potential form that could be used. And I hope to do that through a supplemental request for comments later this month. And with something to be said later on the AQI project, we may well be in a position to proceed on both with the help of our colleagues at the Commission.

MR. BAUMANN: Thanks very much. Ken Goldman.

MR. GOLDMAN: Thank you. This is my first meeting, so I'll just be brief in terms of a couple of thoughts relative to Chairman Doty's comments.

First of all, I think when the auditing standards change, I would just recommend, it's helpful for issuing companies to understand more of how those changed. Sometimes we see the impact of those, but it's actually during the auditing process. And I see this both as a CFO, as well as a chairman of a couple of companies, in terms of the audit committees.

Two is just a comment. You talked about enforcement actions. One thing I've noticed, just again in my brief tenure here is I see a lot of the enforcement actions, from what I see anyway, on firms that to me are relatively small. And it just brings to my thought as to whether certain firms should be doing audits. Or too is are we spending so much time on relatively smaller firms, versus larger firms.

Three -- and this is going to be contentious, but I'll say it anyway. I was on the treasury committee with some others here, when we looked at a number of factors. This is back in the '07, '08 timeframe. I have about 20 binders still from that period, which now are nicely on the shelf.

But one of the things we did talk about was the partner being -- you know, signing the opinion. We're still talking about it. And to me, I'll just make this comment. I am proud to sign on behalf of my company when I sign. And to me, you know, it should be the same -- I think it should be the same in terms of the auditing profession. They should be proud too.

And to try to put it on some other piece of paper, which is hard to find, it will be found anyway. I don't quite see the benefit of doing that, versus signing somewhere very visible, like under the opinion. Those are my comments.

MS. MOONEY: Thanks, Marty. Well first, I would echo Ken Goldman's comments about the transparency project, and really urge PCAOB to move forward, I mean, without delay on this.

For the vast majority of annual reports that I've looked at in other countries, in the major countries, they include the audit partner names. It hasn't been a problem.

So these are -- you know, except Canada, I think all the other major countries do this. It seems like it doesn't look so great on the profession to continue to try to hide this information here.

But anyhow, just in respect to China, Jim, your comments on China, the audit work paper proposal. Is there any difference from what's required of the U.S. companies, or companies listed here, you know, that are from other countries, in terms of, you know, audit work papers in the U.S. securities law?

MR. TWEEDIE: Thanks, Marty. It's really just to back up what Ken and Elizabeth were saying. I mean, I don't know the facts of the situation. But like many auditors, the fact that I don't know the facts doesn't stop me expressing an opinion.

It was --- not being a lawyer, I just don't understand the difference between putting an auditor's name on a different piece of paper is going to save you. And as a non-American, we've always looked upon the PCAOB as a leader in this field. It's spawned similar bodies worldwide.

And worldwide the auditor puts his name under his opinion. And, you know, I really think it's a shame that the U.S. isn't showing the same sort of leadership that it's shown in other areas. I really would like you to think again and do it properly.

MR. BAUMANN: Thanks, David. Any other general comments, questions? Peter Clapman.

MR. CLAPMAN: I'll just echo, since the issue has now been raised for the table, the people that have urged strongly to have the audit partner's name disclosed.

To me it's an investor protection issue. It's an -- or disclosure issue to make it easier for investors to understand the audit process in companies they're investing in.

And I really don't see, since everybody else in the structure of an audit knows who the senior audit partner is, why this shouldn't be made readily available to the public. And therefore, known to investors who want this information. And it's hard for me to understand why it's not readily understood that that should be given.

MR. DOTY: Well first, on the liability point, as I said, I believe that case law is moving significantly in the direction of supporting Ken and Sir David on the proposition that merely naming the engagement partner in an audit report, or even signing on behalf of the firm, does not expose that engagement partner to liability under Rule 10b-5, under private civil litigation standards.

But what I think as a lawyer is not important. I think what we're trying to do at the PCAOB is move the actual form requirement in a manner that will alleviate, address and lay to rest the concerns that the partner might be needing to make a statement subjecting the partner to individual liability, personal liability.

Although suits against individual engagement partners have not been common. And so, I agree with Ken that this information is going to be found if we can get it in an appropriate filing at the PCAOB.

MR. JUBB: Thank you. In relation to the naming of the engagement partner on audit reports, I wanted to share a very practical testimony relating to how very, very useful this has been in the United Kingdom, in relation to raising questions about audit quality and reporting thereto.

Last month on behalf of Standard Life Investments, I attended the AGM of Royal Dutch Shell. And I spoke at that AGM in The Hague, to draw attention to the fact that the named partner for Royal Dutch Shell was also the named partner who signed the Rio Tinto audit reports some five or six years ago, at the same time when the chair of the audit committee of Royal Dutch Shell was the CFO.

I was able to do that because we were able to identify the name of the partner. And this was his first year being -- signing off on the Royal Dutch Shell, because he was named in the auditor reports. I was also able to identify that he was the auditor of a company named Bumi. Bumi is a mining company, which its shares are now suspended.

And in today's Financial Times, there is a report of a significant regulatory fine due to non-disclosure of certain related party transactions. And I was able to identify that the partner who signs the Royal Dutch Shell was the same person, because he is named in that way.

And if I didn't have the ability to identify that partner, I would not have been aware of the issues involved. And I would not have been in a position to ask the audit committee in the AGM -- or through the chair, to ask and inquire as to why the audit committee had not provided more disclosures regarding the circumstances associated with the selection of that individual as the audit partner for Royal Dutch Shell.

And I wanted to share this with the -- in the SAG, as a very practical example of how the naming of audit partners can enable a better understanding of the issues associated with a specific audit. Thank you.

MR. BAUMANN: Guy, thanks for those good insights, and we share completely your view of the importance of naming the engagement partner. And it continues to be a very high priority of ours to make sure that that happens. Although a lot of obstacles have been in the way, we believe we'll get there. Joan Amble.

MS. AMBLE: Yes. Thank you. I actually wanted to talk on a different subject. Well actually, I do though want to make the point that I don't see what the issue is with the auditor signing the report either. I look to it analogous as the certifications that the CEOs and Chairman's provide.

So if there's some legal issue I'm unaware of, I'm kind of clueless on that. But I'm kind of with the group here that the signature seems to make a lot of sense. And I would think they would be proud to sign it.

I was curious if you could offer, Chairman Doty, some further discussion about -- you had mentioned when the paper on audit committee dialogue was issued, you had had some audit committee input from that. And that you would propose on that in other areas to get more input from the audit committee, which I think, is great. I would welcome those opportunities.

I was curious as to whether or not that would be sort of a formal process that you would set up? If there's going to be an advisory group? Or if it would be more ad hoc? And so, if you could just talk about maybe what the outreach program might look like, I'd be interested.

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IMPROVING THE TRANSPARENCY OF AUDITS: RULES TO REQUIRE DISCLOSURE OF CERTAIN AUDIT PARTICIPANTS ON A NEW PCAOB FORM AND RELATED AMENDMENTS TO AUDITING STANDARDS	PCAOB Release No. 2015-008 December 15, 2015 PCAOB Rulemaking Docket Matter No. 029

Summary: The Public Company Accounting Oversight Board ("PCAOB" or "Board") is adopting new rules and related amendments to its auditing standards that will improve transparency regarding the engagement partner and other accounting firms that took part in the audit. The rules will require disclosure of the name of the engagement partner and information about other accounting firms on new PCAOB Form AP, *Auditor Reporting of Certain Audit Participants* ("Form AP").

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PCAOB
Public Company Accounting Oversight Board

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I. Introduction

The Board is adopting new rules and related amendments to its auditing standards that will provide investors and other financial statement users with information about engagement partners and accounting firms that participate in audits of issuers. Under the final rules, firms will be required to file a new PCAOB form for each issuer audit, disclosing:

- The name of the engagement partner;
- The name, location, and extent of participation of each other accounting firm participating in the audit whose work constituted at least 5% of total audit hours; and
- The number and aggregate extent of participation of all other accounting firms participating in the audit whose individual participation was less than 5% of total audit hours.

The information will be filed on Form AP, *Auditor Reporting of Certain Audit Participants*, and will be available in a searchable database on the Board's website.

Audits serve a crucial public function in the capital markets. However, investors have had very little ability to evaluate the quality of particular audits. Generally, in the United States, investor decisions about how much credence to give to an auditor's report have been based on proxies of audit quality, such as the size and reputation of the firm that issues the auditor's report. Investors and other financial statement users know the name of the accounting firm signing the auditor's report and may have other information related to the reputation and quality of services of the firm, but they are generally unable to readily identify the engagement partner leading the audit. They are also unlikely to know the extent of the role played by other accounting firms participating in the audit.

The Board is adopting these rules and amendments after considering four rounds of public comment, as well as comments from members of the Board's Standing Advisory Group ("SAG") and Investor Advisory Group ("IAG"). The Board has received consistent comments from investors throughout this rulemaking that stress the importance and value to them of increased transparency and accountability in relation to certain participants in the audit. These commenters indicated that access to such information would be relevant to their decision making, for example, in the context of voting to ratify the company's choice of auditor.[1] The Board believes that its approach to providing information about the engagement partner and the other accounting firms that participated in the audit will achieve the objectives of enhanced transparency and accountability for the audit while appropriately addressing concerns raised by commenters.

In the Board's own experience, gained through more than ten years of overseeing public company audits, information about the engagement partner and other accounting firms participating in the audit can be used along with other information, such as history on other issuer audits or disciplinary proceedings, in order to provide insights into audit quality. The rules the Board is adopting will add more specific data points to the mix of information that can be used when evaluating audit quality.[2] Since audit quality is a component of financial reporting quality, high audit quality increases the credibility of financial reporting.

For example, the name of the engagement partner could, when combined with additional information about the experience and reputation of that partner, provide more information about audit quality than solely the name of the firm.[3] Through its oversight

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[1] *See, e.g.,* Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to the Office of the Secretary, PCAOB (Aug. 15, 2014), ("[I]nformation about engagement partners' track record compiled as the result of requiring disclosure of the partner's name in the auditor's report would be relevant to our members as long-term shareowners in overseeing audit committees and determining how to cast votes on the more than two thousand proposals that are presented annually to shareowners on whether to ratify the board's choice of outside auditor.").

[2] The Board's project on the auditor's reporting model, *Proposed Auditing Standards—The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards*, PCAOB Release No. 2013-005 (Aug. 13, 2013), is also focused on providing the market with additional information about the audit. In addition, the Board has issued a concept release, *Concept Release on Audit Quality Indicators*, PCAOB Release No. 2015-005 (July 1, 2015), regarding the content and possible uses of "audit quality indicators," a potential portfolio of quantitative measures that may provide new insights into how to evaluate the quality of audits and how high-quality audits are achieved.

[3] As discussed in Section II.B., most non-US jurisdictions with highly developed capital markets require transparency regarding the engagement partner responsible for the audit.

activities, the Board has observed that the quality of individual audit engagements varies within firms, notwithstanding firmwide or networkwide quality control systems. Although such variations may be due to a number of factors, the Board's staff uses engagement partner history as one factor in making risk-based selections of audit engagements for inspection. Some firms closely monitor engagement partner quality history themselves, utilizing this information to manage risk to the firm and to comply with quality control standards.

Under the final rules, investors and other financial statement users will have access, in one location, to the names of engagement partners on all issuer audits.[4] As this information accumulates and is aggregated with other publicly available information, investors will be able to take into account not just the firm issuing the auditor's report but also the specific partner in charge of the audit and his or her history as an engagement partner on issuer audits. This will allow interested parties to compile information about the engagement partner, such as whether the partner is associated with restatements of financial statements or has been the subject of public disciplinary proceedings, as well as whether he or she has experience as an engagement partner auditing issuers of a particular size or in a particular industry. While this information may not be useful in every instance or meaningful to every investor, the Board believes that, overall, it will contribute to the mix of information available to investors.

The final rules requiring disclosures about other accounting firms that participate in issuer audits should also provide benefits to investors and other financial statement users. In many audit engagements, especially audits of public companies operating in multiple locations internationally, the firm signing the auditor's report performs only a portion of the audit. The remaining work is performed by other (often affiliated) accounting firms that are generally located in other jurisdictions. The accounting firm issuing the auditor's report assumes responsibility for the procedures performed by other accounting firms participating in the audit[5] or supervises the work of other

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[4] At this time, the Board is not extending the Form AP requirements to audits of brokers and dealers pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, as amended ("Exchange Act"). If a broker or dealer were an issuer required to file audited financial statements under Section 13 or 15(d) of the Exchange Act, the requirements would apply.

[5] *See* AS 1205 (currently AU sec. 543), *Part of the Audit Performed by Other Independent Auditors*. On March 31, 2015, the PCAOB adopted the reorganization of its auditing standards using a topical structure and a single, integrated numbering system. *See Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). On September 17, 2015, the U.S. Securities and Exchange Commission

accounting and nonaccounting firm participants in the audit.[6] However, under current requirements, the auditor's report generally provides no information about these arrangements, even though other accounting firms may perform a significant portion of the audit work. As a result, the auditor's report may give the impression that the work was performed solely by one firm—the firm issuing the auditor's report—and investors have no way of knowing whether the firm expressing the opinion did all of the work or only a portion of it.

Information provided on Form AP is intended to help investors understand how much of the audit was performed by the accounting firm signing the auditor's report and how much was performed by other accounting firms. Investors will also be able to research publicly available information about the firms identified in the form, such as whether a participating firm is registered with the PCAOB, whether it has been inspected and, if so, what the results were and whether it has any publicly available disciplinary history. Investors will also have a better sense of how much of the audit was performed by firms in other jurisdictions, including jurisdictions in which the PCAOB cannot currently conduct inspections. As with disclosure of the name of the engagement partner, these additional data points will add to the mix of information that investors can use.

In addition to the informational value of the disclosures required under the final rules, the Board believes the transparency created by public disclosure should promote increased accountability in the audit process. As Justice Brandeis famously observed, "Sunlight is said to be the best of disinfectants; electric light the most efficient policeman."[7] Although auditors already have incentives to maintain a good reputation,

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("SEC" or "Commission") approved the PCAOB's adoption of the reorganization. *See Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules To Implement the Reorganization of PCAOB Auditing Standards and Related Changes to PCAOB Rules and Attestation, Quality Control, and Ethics and Independence Standards*, Exchange Act Release No. 34-75935 (Sept. 17, 2015), 80 FR 57263 (Sept. 22, 2015). The reorganized amendments will be effective as of December 31, 2016, and nothing precludes auditors and others from using and referencing the reorganized standards before the effective date. *See* PCAOB Release No. 2015-002, at 21.

[6] *See* AS 1201 (currently Auditing Standard No. 10), *Supervision of the Audit Engagement*.

[7] Louis Brandeis, *Other People's Money and How the Bankers Use It* 92 (1914).

such as internal performance reviews, regulatory oversight, and litigation risk, public disclosure will create an additional reputation risk, which should provide an incremental incentive for auditors to maintain a good reputation, or at least avoid a bad one. While this additional incentive will not affect all engagement partners in the same way, in the Board's view, it should provide an overall benefit.

The Board believes additional transparency should also increase accountability at the firm level. The Board has observed that some auditors allowed other accounting firms that did not possess the requisite expertise or qualifications to play significant roles in audits. Firms similarly have not always given the critical task of engagement partner assignment the care it deserves. For example, the Board's inspections have found instances in which accounting firms lacked independence because they failed to rotate the engagement partner, as required by the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act" or "Act") and the rules of the SEC. The Board has also imposed sanctions on firms that staffed a public company audit with an engagement partner who lacked the necessary competencies.[8] Making firms publicly accountable in a way they have not been previously for their selections of engagement partners and other accounting firms participating in the audit should provide additional discipline on the process and discourage such lapses.

The requirement to provide disclosure on Form AP, rather than in the auditor's report as previously proposed, is primarily a response to concerns raised by some commenters about potential liability and practical concerns about the potential need to obtain consents for identified parties in connection with registered securities offerings. Investors commenting in the rulemaking process have generally stated a preference for disclosure in the auditor's report. Under the final rules, in addition to filing Form AP, firms will also have the ability to identify the engagement partner and/or provide disclosure about other accounting firms participating in the audit in the auditor's report. This is not required, but firms may choose to do so voluntarily. The Board believes that providing information about the engagement partner and the other accounting firms that participated in the audit on Form AP, coupled with allowing voluntary reporting in the auditor's report, will achieve the objectives of enhanced transparency and accountability for the audit while appropriately addressing concerns raised by commenters.

In response to commenter suggestions, the Board is adopting a phased effective date to give firms additional time to develop systems necessary to implement the new rules. Subject to approval of the new rules and amendments by the SEC, Form AP

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[8] *See, e.g.*, *Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions, In the Matter of Deloitte & Touche, LLP*, PCAOB Release No. 105-2007-005 (Dec. 10, 2007).

disclosure regarding the engagement partner will be required for audit reports issued on or after the later of three months after SEC approval of the final rules or January 31, 2017. Disclosure regarding other accounting firms will be required for audit reports issued on or after June 30, 2017.

The Board is adopting two new rules (Rules 3210 and 3211) and one new form (Form AP).[9] These are disclosure requirements and do not change the performance obligations of the auditor in conducting the audit. The Board is also adopting amendments to AS 3101 (currently AU sec. 508), *Reports on Audited Financial Statements*, and AS 1205 (currently AU sec. 543) related to voluntary disclosure in the auditor's report.

In the Board's view, the final rules and amendments to its auditing standards, which the Board is adopting pursuant to its authority under the Sarbanes-Oxley Act, will further the Board's mission of protecting the interests of investors and furthering the public interest in the preparation of informative, accurate, and independent audit reports.

II. Background of the Final Rules

A. Rulemaking History

For several years, the Board has been considering requiring firms to provide more information about key participants in audits that are subject to PCAOB standards. Providing such information would provide additional transparency about who is responsible for performing an audit for the benefit and use of investors and other market participants.

The Board began this rulemaking process in 2009, in response to a recommendation of the U.S. Department of the Treasury's Advisory Committee on the Auditing Profession ("ACAP"),[10] by seeking comment on whether the engagement partner should be required to sign the auditor's report.[11] In 2011, after considering

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[9] The final rules, form instructions, and related amendments appear in Appendix 1.

[10] ACAP, *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* (Oct. 6, 2008), at VII:20 (recommending that the PCAOB undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report).

[11] *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*, PCAOB Release No. 2009-005 (July 28, 2009) ("2009 Release").

commenters' views on a signature requirement, the Board proposed rules that would have required disclosure in the auditor's report of the name of the engagement partner. The Board proposed a disclosure approach instead of a signature requirement primarily in response to commenters' concerns regarding liability and the potential for a signature to overemphasize the role of the engagement partner in relation to that of the firm as a whole. In addition, the Board proposed rules that would have required disclosures of certain information about accounting firms and other participants in the audit to provide investors and other financial statement users with greater transparency into the other participants in the audit.[12]

In December 2013, the Board reproposed amendments to its standards that would have required disclosure in the auditor's report of: (1) the name of the engagement partner; (2) the names, locations, and extent of participation of other independent public accounting firms that took part in the audit; and (3) the locations and extent of participation, on an aggregate basis by country, of certain nonaccounting firm participants in the audit.[13]

In June 2015, the Board sought comment on the possibility of mandating disclosures regarding the engagement partner and other accounting firms participating in the audit on a new PCAOB form, Form AP, as an alternative to mandated disclosure in the auditor's report.[14] The 2015 Supplemental Request also solicited comment on narrowing or eliminating disclosures regarding nonaccounting firm participants.

In July 2015, the SEC issued a concept release regarding audit committee reporting requirements, which sought comment on, among other things, the potential to require audit committee disclosure of the name of the engagement partner and the

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[12] *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*, PCAOB Release No. 2011-007 (Oct. 11, 2011) ("2011 Release"). The proposal would also have required accounting firms to name the engagement partner on the public Form 2, *Annual Report Form*, which is the reporting form registered firms are required to file to fulfill their annual reporting obligation to the Board regarding basic information about the firm and the firm's issuer-, broker-, and dealer-related practices over the most recent 12-month period.

[13] *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*, PCAOB Release No. 2013-009 (Dec. 4, 2013) ("2013 Release").

[14] *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*, PCAOB Release No. 2015-004 (June 30, 2015) ("2015 Supplemental Request").

names of the other independent public accounting firms and other persons involved in the audit.[15] Comments received by the SEC were considered in developing the Board's final rules.

Throughout this process, the Board has sought to balance the potential benefits of disclosure regarding the engagement partner and other accounting firms that participate in the audit with concerns expressed by some commenters about its potential consequences, including the potential for an increase in auditors' liability and litigation risk, confusion about the role of the firm in the audit, and administrative costs, among others. Toward that end, the Board has looked for ways to achieve the goals of increased transparency and accountability for auditors while limiting, to the extent consistent with those goals, potential unintended consequences.

B. Requirements in Other Jurisdictions

Many other jurisdictions require disclosure of the name of the engagement partner in the auditor's report or engagement partner signature on the auditor's report when issued in connection with audits of various private and public entities. In May 2006, the European Union ("EU") adopted the Statutory Audit Directive (2006/43/EC), which, among other things, requires "at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm" to sign the auditor's report.[16] This directive required all EU members to enact conforming legislation.

Engagement partner identification is not limited to the EU. For example, 16 out of the 20 countries with the largest market capitalization, including 7 EU member states, already require disclosure of the name of the engagement partner in the auditor's report.[17] In 2014, the International Auditing and Assurance Standards Board ("IAASB") adopted International Standard on Auditing ("ISA") 700 (Revised), *Forming an Opinion*

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[15] *See* SEC, *Possible Revisions To Audit Committee Disclosures*, Exchange Act Release No. 34-75344 (July 1, 2015), 80 FR 38995 (July 8, 2015).

[16] *See* Directive 2006/43/EC of the European Parliament and of the Council, Article 28, Audit Reporting (May 17, 2006).

[17] Out of the 20 countries with the largest market capitalization (based on data obtained from the World Bank, World Development Indicators), the four that currently do not require the disclosure of the name of the engagement partner are the United States, Canada, Republic of Korea, and Hong Kong. The 16 countries that currently require disclosure of the name of the engagement partner are Japan, United Kingdom, France, Germany, Australia, India, Brazil, China, Switzerland, Spain, Russian Federation, the Netherlands, South Africa, Sweden, Mexico, and Italy.

and Reporting on Financial Statements, which requires disclosure of the name of the engagement partner in the auditor's report for audits of financial statements of listed entities for periods ending on or after December 15, 2016. Once the revised ISA 700 goes into effect, disclosure of the engagement partner's name in the auditor's report of a listed entity will be required in those jurisdictions that have adopted the ISAs as adopted by the IAASB.

Unlike disclosure of the engagement partner's name, disclosure of other accounting firms that participated in the audit is not, to the Board's knowledge, required in any other country. In June 2012, the IAASB issued an Invitation to Comment, *Improving the Auditor's Report*, which sought comment on whether other accounting firms that participate in the audit should be disclosed in the auditor's report. The IAASB's final standard did not include such a requirement. The PCAOB's standards have also prohibited identification of other accounting firms in the auditor's report unless responsibility for the audit is divided. The amendments the Board is adopting will require public disclosure of such information on Form AP and will remove the prohibition on auditor's report disclosure of information that is required to be disclosed on Form AP when accompanied by certain statements clarifying the responsibility of the firm signing the auditor's report. These statements should address the potential risk of confusion about responsibility for the audit.

III. <u>Discussion of the Final Rules</u>

The required disclosures under the final rules principally include:

- The name of the engagement partner; and
- For other accounting firms[18] participating in the audit:
    - 5% or greater participation: The name, city and state (or, if outside the United States, the city and country), and the percentage of total audit hours[19] attributable to each other accounting firm whose participation in the audit was at least 5% of total audit hours;

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[18] For purposes of Form AP, "other accounting firm" means (i) a registered public accounting firm other than the firm filing Form AP or (ii) any other person or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework.

[19] *See* Section III.A.3.b.iv for a discussion of computation of total audit hours.

- Less than 5% participation: The number of other accounting firms that participated in the audit whose individual participation was less than 5% of total audit hours, and the aggregate percentage of total audit hours of such firms.

The final rules require this information to be filed on Form AP. In addition to filing the form, the firm signing the auditor's report may voluntarily provide information about the engagement partner, other accounting firms, or both in the auditor's report.

A. Form AP—Auditor Reporting of Certain Audit Participants

1. *Introduction*

Under the final rules, firms will be required to provide specified disclosures regarding the engagement partner and other accounting firms participating in the audit on a new PCAOB form, Form AP. Most commenters supported Form AP as a vehicle for disclosures about the engagement partner and other participants in the audit. However, some commenters criticized the Form AP approach generally because they disputed the net value of the information to be disclosed, regardless of the means of disclosure, or believed that the information was more appropriately presented elsewhere, such as in the auditor's report, the issuer's proxy statement, or PCAOB Form 2. Investors and investor groups generally preferred auditor signature or disclosure in the auditor's report and characterized Form AP as an acceptable second-best approach. Most other commenters, on the other hand, preferred Form AP, generally on the basis that it would help mitigate legal and practical issues associated with disclosure in the auditor's report.

As noted in the 2015 Supplemental Request, Form AP serves the same purpose as disclosure in the auditor's report. Its intended audience is the same as the audience for the auditor's report—investors and other financial statement users—and its filing is tied to the issuance of an auditor's report. In that respect, it differs from the PCAOB's existing forms,[20] which are intended primarily to elicit information for the Board's use in connection with its oversight activities, with a secondary benefit of making as much reported information as possible available to the public as soon as possible after filing

[20] Existing PCAOB reporting forms have been developed for the principal purpose of registration with the Board and reporting to the Board about a registered public accounting firm's issuer, broker, and dealer audit practice. These forms are: (1) Form 1, *Application for Registration*; (2) Form 1-WD, *Request for Leave to Withdraw from Registration*; (3) Form 2, *Annual Report*; (4) Form 3, *Special Report*; and (5) Form 4, *Succeeding to Registration Status of Predecessor*.

with the Board.[21] Form AP is primarily intended as a vehicle for public disclosure, much like the auditor's report itself.[22] While information on Form AP could also benefit the Board's oversight activities, that is ancillary to the primary goal of public disclosure.

2. *Disclosures About the Engagement Partner*

Since the inception of this rulemaking, the Board has explored a variety of means of providing public disclosure of the name of the engagement partner, including engagement partner signature on the auditor's report, identification of the engagement partner in the auditor's report, and identification of the name of the engagement partner on Form 2. The 2013 Release contemplated identifying the engagement partner in the auditor's report. The 2015 Supplemental Request solicited comment on the potential use of Form AP, with optional additional disclosure in the auditor's report.

Commenters on the 2013 Release and on the 2015 Supplemental Request expressed divergent views on a requirement to disclose the name of the engagement partner. Commenters that supported the disclosure requirement argued that it would provide information that would be useful to investors and other financial statement users (for example, in connection with a vote on ratification of auditors), or could improve audit quality by increasing the sense of accountability of engagement partners. Commenters that opposed the requirement generally claimed that identification of the engagement partner would give rise to unintended negative consequences, particularly with respect to liability; would not be useful information for investors and other financial statement users; could incentivize engagement partners to act in ways that protect their reputations but potentially conflict with the audit quality goals of their audit firms or with

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[21] *Rules on Periodic Reporting by Registered Public Accounting Firms*, PCAOB Release No. 2008-004 (June 10, 2008), at 28.

[22] The Board has authority under Section 103 of the Sarbanes-Oxley Act to adopt, by rule, audit standards "to be used by registered public accounting firms in the preparation and issuance of audit reports . . . as may be necessary or appropriate in the public interest or for the protection of investors." In addition, under Section 102 of the Sarbanes-Oxley Act, the Board has authority to require registered public accounting firms to submit periodic and special reports, which are publicly available unless certain conditions are met. If a firm requests confidential treatment of information under Section 102(e) of the Sarbanes-Oxley Act, the information is not publicly disclosed unless there is a final determination that it does not meet the conditions for confidentiality. Because of the intended purpose of Form AP and the Board's related authority under Section 103 of the Sarbanes-Oxley Act, confidential treatment of the information filed on Form AP will not be available.

broader indicators of audit quality; and could mislead or confuse users about the role of the engagement partner, in particular by overemphasizing the role of the engagement partner as compared to the role of the firm. Several of the commenters that previously opposed disclosure in the auditor's report were more supportive of disclosure in a PCAOB form, if the Board determined to mandate disclosure.

The Board believes that disclosure of the name of the engagement partner will, overall, be useful to investors and other financial statement users. Although the disclosure of the name of the engagement partner might provide limited information initially, it is reasonable to expect that, over time, the disclosures will allow investors and other financial statement users to consider a number of other data points about the engagement partner, such as the number and names of other issuer audit engagements in which the partner is the engagement partner and other publicly available data. Such bodies of information have developed in some other jurisdictions, such as Taiwan, where public companies are required to disclose the names of the engagement partners,[23] and some commenters believe that, in the United States, third-party vendors will supply information in addition to what is provided by Form AP.

Some commenters on the 2015 Supplemental Request suggested that disclosure regarding a number of these matters, such as industry experience, partner tenure, restatements and disciplinary actions, be added to Form AP or linked to Form AP data. One of these commenters pointed out that the academic literature supports the potential usefulness of metrics, such as the number of years the individual has served as the engagement partner or the engagement partner for prior years as signals of audit quality, and that, by requesting additional background information in the first year of implementation, the PCAOB could accelerate the usefulness of Form AP data. In striking a balance between the anticipated benefits of the rule and its anticipated costs, including the costs and timing of initial implementation, the Board has determined not to expand the disclosures required on Form AP at this time.

Some commenters raised concerns that public identification of the engagement partner could lead to a rating, or "star," system resulting in particular individuals being in high demand, to the unfair disadvantage of other equally qualified engagement

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23 As described in Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, *Capital Market Consequences of Audit Partner Quality*, 90 The Accounting Review 2143 (2015), the Taiwan Economic Journal collects data that covers all public companies in Taiwan and includes, among other things, the names of the engagement partners, the accounting firm issuing the auditor's report, the regulatory sanction history of the partners, and the audit opinions. Professor Aobdia is a research fellow at the PCAOB. His research cited above was undertaken prior to joining the PCAOB.

partners. These commenters also suggested that, if such a system were created, engagement partners may not be willing to accept the most challenging audit engagements. The Board is aware that, as a consequence of the required disclosures, certain individuals may develop public reputations based on their industry specializations, audit history, and track records. The Board does not believe that such information would necessarily be harmful and could, to the contrary, be useful to investors and other financial statement users. In recent years, detailed information about the backgrounds, expertise, and reputations among clients and peers has become commonly available regarding other skilled professionals and such information is widely available to consumers of those services. The role of an auditor, including an engagement partner, differs from that of other professions, but the underlying principle that consumers of professional services could make better decisions with more information still applies. Further, investors generally commented that they would benefit from information about the identity of those who perform audits.

Some commenters were concerned that identification of the engagement partner may confuse investors by putting a misleading emphasis on a single individual when an audit, particularly a large audit, is in fact a group effort. One commenter suggested that the disclosure should be expanded to include members of firm leadership to help clarify the responsibility for the audit; other commenters suggested adding context, such as disclosure of the proportion of total audit hours attributable to the engagement partner; identification of other parties that play a role in the engagement; identification of the engagement quality reviewer; or a sentence that explains the roles of the engagement partner and the firm signing the auditor's report in the performance of the audit.

It is true that an audit is often a group effort and that a large audit of a multinational company generally involves a very large team with more than one partner involved. Nevertheless, the engagement partner, who is the "member of the engagement team with primary responsibility for the audit,"[24] plays a unique and critical role in the audit. It is not unusual in audits of large companies for audit committees to interview several candidates for their engagement partner when a new engagement partner is to be chosen because the qualifications and personal characteristics of the engagement partner are viewed by the audit committee and senior management as particularly important. Because of the engagement partner's key role in the audit, it is appropriate when shareholders are asked to ratify the company's choice of the registered firm as its auditor to be well informed about the leader of the team that conducted the most recently completed audit. Public identification of the name of the engagement partner will help serve that end. The role played in the audit by others such

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24 *See* Appendix A of AS 2101 (currently Auditing Standard No. 9), *Audit Planning*, and Appendix A of AS 1201 (currently Auditing Standard No. 10).

as the engagement quality reviewer, while important, is not comparable and, in the Board's view, does not warrant separate identification at this time.

Some commenters on the 2013 and 2011 Releases expressed concerns that public identification of engagement partners may make them susceptible to threats of violence and suggested adding an exception to the disclosure requirement analogous to that in the EU's Eighth Company Law Directive, which allows for an exception "if such disclosure could lead to an imminent and significant threat to the personal security of any person."[25] However, other commenters on the 2011 Release indicated that auditors should not be treated differently, for security purposes, than other individuals involved in the financial reporting process who are publicly associated with a company in its SEC filings. The Board notes that a requirement to disclose the names of financial executives, board members, and audit committee members has been in place in the U.S. for quite some time, yet there is no indication that personal security risks have increased for these individuals. Therefore, the final rules do not include an exception to the required disclosure.

Many commenters have also suggested that the simple act of naming the engagement partner will increase the engagement partner's sense of accountability. Some of these commenters argued that increased accountability would lead to changes in behavior that would enhance audit quality. In their view, the availability of information about engagement partner history, and the potential that individuals may develop public reputations based on their industry specializations, audit history, and track records could be a powerful antidote to internal pressures or may foster improved compliance with existing auditing standards. Many accounting firms, associations of accountants, and others disputed this argument, claiming that engagement partners are already accountable as a result of internal performance reviews, regulatory oversight, and litigation risk. The Board believes allowing investors and other financial statement users to distinguish not just among firms, but also among partners, should enhance the incentive for engagement partners to develop a reputation for performing high-quality audits.

Public disclosure of the engagement partner's name could also have a beneficial effect on the engagement partner assignment process at some firms. In many public companies, particularly larger ones, the choice of an engagement partner is determined by both the firm and the audit committee. As discussed above, firms would be publicly accountable for these assignments in a way that they have not been previously. Some commenters noted that audit committees are currently able to obtain non-public

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25 Directive 2006/43/EC of the European Parliament and of the Council, Article 28, Audit Reporting (May 17, 2006).

information about engagement partners. These commenters suggested that mandated disclosure would not be useful to audit committees, since audit committees already know the information being disclosed. However, as noted by another commenter, disclosure would lead to more information becoming publicly available about all engagement partners on audits of issuers conducted under PCAOB standards, which should provide audit committees with additional context and benchmarking information when participating in the assignment process.

Some commenters suggested that, because the financial statements and the auditor's report are retrospective, the disclosure required under the proposed amendments would not be useful for shareholders deciding whether to ratify the audit committee's choice of auditor. Under the final rules, shareholders will be able to find the identity of the engagement partner for the most recently completed audit but not for the next period. Other commenters, however, claimed that historical information would provide insight into the audit process and would enable investors to better evaluate the audit, which would assist them in making the ratification decision.

For the reasons discussed above, the Board believes that disclosure of the name of the engagement partner will benefit investors and other financial statement users by providing more specific data points in the mix of information that can be used when evaluating audit quality and hence credibility of financial reporting. At the same time, the disclosure should, at least in some circumstances, enhance the accountability of both engagement partners and accounting firms.

In commenting on the 2015 Supplemental Request, some academics noted potential uncertainty or ambiguity that could arise if engagement partners' names were not presented consistently in Form AP, if an engagement partner changed his or her name or changed firms, or if two engagement partners had the same name. Some commenters suggested that the PCAOB include a unique partner identifying number to ensure that partners could be unambiguously identified over time. Evidence available to PCAOB staff indicates that the problem of partner name confusion among the largest audit firms would be quite limited.[26] However, because it may improve the usability of the data, Form AP includes a field for such a partner identifying number, and the final

[26] In order to evaluate the potential extent of confusion about partner names, staff researched six years of partner name data for the largest four accounting firms. Three scenarios of potential name confusion were constructed and quantitatively evaluated. The first scenario was two partners in a firm sharing the exact same name. The second scenario was a lead engagement partner changing audit firms. The final scenario was a partner changing last names. The total incidence of such scenarios appeared to affect less than 0.5% of the partner population in the sample.

rules require each registered accounting firm to assign a 10-digit partner identifying number—Partner ID—to each of its partners serving as the engagement partner on audits of issuers.[27] The number will be identified to a particular partner and will not be reassigned if the partner retires or otherwise ceases serving as engagement partner on issuer audits conducted by that firm. If an engagement partner changes firms, the new firm must assign a new Partner ID to the engagement partner. The new firm will be responsible for reporting on Form AP the engagement partner with his or her new Partner ID and all Partner IDs previously associated with the engagement partner. The Board believes that the ability to unambiguously identify each engagement partner with his or her issuer audit history may improve the usability of the data gathered on Form AP and the overall cost of implementation should be low.

3. *Disclosure About Other Participants in the Audit*

a. Introduction

In the 2013 Release, the Board proposed disclosure in the auditor's report of: (1) the names, locations, and extent of participation of other independent public accounting firms that took part in the audit and (2) the locations and extent of participation, on an aggregate basis by country, of certain other persons not employed by the auditor that took part in the audit. Extent of participation would have been determined as a percentage of total audit hours, excluding hours attributable to the engagement quality reviewer, Appendix K[28] review and internal audit. Extent of participation would have

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[27] *See* general instruction 7 and Item 3.1.a.6 of Form AP. The firm is required to assign a 10-digit Partner ID number, beginning with the Firm ID (a unique five-digit number based on the number assigned to the firm by the PCAOB; Firm ID is discussed further in Section III.A.3.b.i) followed by a unique series of five digits assigned by the firm. The unique series element can be any series of numbers of the firm's choosing that is unique to each engagement partner associated with the firm. For example, the unique series element could be sequential numbers, numbers based on the year the partner was admitted into the partnership, or random numbers.

[28] *See* SEC Practice Section ("SECPS") Section 1000.45 Appendix K, *SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants.* The Board adopted Appendix K as part of its interim standards. *See* Rule 3400T(b), *Interim Quality Control Standards*; SECPS Section 1000.08(n). Appendix K requires accounting firms associated with international firms to seek the adoption of policies and procedures consistent with certain objectives, including having policies and procedures for certain filings of SEC registrants which are the clients of foreign associated firms to be reviewed by persons knowledgeable in PCAOB standards.

been disclosed as a number or within a range (less than 5%, 5% to less than 10%, 10% to less than 20%, and so on in 10% increments) and would have been based on estimates of audit hours. Other accounting firms whose participation was less than 5% of total audit hours were not required to be individually identified; rather, the number of such other accounting firms and their aggregate participation would have been disclosed. Similarly, for nonaccounting firm participants in the same country whose aggregate participation was less than 5%, disclosure of the number of such countries and the aggregate participation of nonaccounting firm participants in such countries would have been required.

The 2015 Supplemental Request solicited comment on limiting disclosures with respect to nonaccounting firm participants, including the possibility of eliminating such disclosures altogether or tailoring the requirements so that disclosure would only be provided with respect to nonaccounting firms that were not entities controlled by or under common control with the auditor or employees of such entities. In addition, unlike the 2013 Release (but aligned with the 2011 Release), the disclosure requirements and computation of total audit hours presented in the 2015 Supplemental Request excluded specialists engaged, not employed, by the auditor.

Some commenters generally supported the requirements in the 2013 Release and asserted that disclosure of the other accounting firms involved in the audit would provide useful information to investors. Other commenters opposed the requirement, because of potential consent requirements and liability under the Securities Act of 1933 ("Securities Act"), or based on the belief that disclosures were not useful information, could confuse financial statement users about the degree of responsibility for the audit assumed by the accounting firm signing the auditor's report, or could contribute to information overload. Others suggested that the current auditing standards (for example, AS 1205 (currently, AU sec. 543)) in this area are adequate. Many commenters on the 2015 Supplemental Request supported other accounting firm disclosures on Form AP (even some who disagreed with engagement partner disclosure requirements). Most commenters supported having no required disclosure of nonaccounting firm participants.

The Board believes that information about other accounting firms participating in the audit is of increasing importance as companies become more global.[29] Many

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[29] For example, in their most recent audited financial statements filed as of May 15, 2015, approximately 51% and 41% of the population of companies in the Russell 3000 Index reported segment sales and assets, respectively, in geographic areas outside the country or region of the accounting firm issuing the auditor's report. For the population of companies in the Russell 3000 Index that reported segment sales or assets in geographic areas outside the country or region of the accounting firm

companies with substantial operations outside the United States are audited by U.S.-based, PCAOB-registered public accounting firms.[30] The Board's inspection process has revealed that the extent of participation by firms other than the one that signs the auditor's report ranges from none to most of the audit work (or, in extreme cases, substantially all of the work).[31] In many situations, the accounting firm signing the auditor's report uses another accounting firm in a foreign country to audit the financial statements of a subsidiary in that country. These arrangements are often used in auditing today's multinational corporations. At the same time, the quality of the audit is dependent, to some degree, on the competence and integrity of the participating accounting firms. This is especially true when the firm signing the auditor's report has reviewed only a portion of the work done by the other accounting firm, as is permitted under AS 1205 (currently AU sec. 543).[32] The Board and its staff previously conveyed

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issuing the auditor's report, approximately 40% and 35% of those segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

[30] *See Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm*, PCAOB's Staff Audit Practice Alert No. 6 (July 12, 2010) (discussing the trend of smaller U.S. firms' auditing companies with operations in emerging markets and reminding auditors of their responsibilities in such audits). Staff Audit Practice Alert No. 6, at 2, noted that "in a 27-month period ending March 31, 2010, at least 40 U.S. registered public accounting firms with fewer than five partners and fewer than ten professional staff issued audit reports on financial statements filed with the SEC by companies whose operations were substantially all in the China region." *See also Activity Summary and Audit Implications for Reverse Mergers Involving Companies from the China Region: January 1, 2007 through March 31, 2010*, PCAOB Research Note No. 2011-P1 (Mar. 14, 2011) (discussing available information on the role of registered public accounting firms in auditing issuers in the China region).

[31] AS 1205.02 (currently AU sec. 543.02) requires the auditor to decide whether his own participation is sufficient to enable him to serve as the principal auditor and to report as such on the financial statements. Current auditing standards state that the firm may serve as principal auditor even when "significant parts of the audit may have been performed by other auditors." AS 1205.02. The PCAOB has a project on its agenda to improve the auditing standards that govern the planning, supervision, and performance of audits involving other auditors. *See Standard-Setting Agenda*, *Office of the Chief Auditor* (Sept. 30, 2015).

[32] *See* AS 1205 (currently AU sec. 543) for a list of matters the auditor is required to review.

their concern about some practices they have seen in these arrangements.[33] In addition to providing potentially valuable information to investors and other financial statement users about who actually performed the audit, the disclosure of other accounting firms participating in the audit could provide other potentially valuable information, such as the extent of participation in the audit by other accounting firms in jurisdictions in which the PCAOB cannot conduct inspections.

Some commenters expressed concern that including information in the auditor's report about other participants in the audit might confuse financial statement users as to who has overall responsibility for the audit or appear to dilute the responsibility of the firm signing the auditor's report. Other commenters, including investors and other financial statement users, expressed support for the disclosure and indicated that investors and other financial statement users are able to distinguish and evaluate many disclosures made by management. These commenters have also asserted that they would be able to consider the information appropriately. To address concerns about potential confusion regarding who has overall responsibility for the audit or potential dilution of the responsibility of the signing firm, the final rules provide that if disclosure regarding other accounting firms is voluntarily included in the auditor's report, the auditor's report must also include a statement that the firm signing the auditor's report is responsible for the audits and audit procedures performed by the other accounting firms and has supervised or performed procedures to assume responsibility for the work in accordance with PCAOB standards.

b. Participants for Which Disclosure is Required

i. *Other Accounting Firms*

Under the final rules, disclosure is required with respect to all other accounting firms that participated in the audit. The final rules define an "other accounting firm" as

(i) a registered public accounting firm other than the firm filing Form AP, or

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[33] *See Audit Risk in Certain Emerging Markets*, PCAOB's Staff Audit Practice Alert No. 8, at 19 (Oct. 3, 2011) ("Through the Board's oversight activities, the Board's staff has observed instances in certain audits of companies in emerging markets in which the auditor did not properly coordinate the audit with another auditor."); *see also Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions*, *In the Matter of Clancy and Co., P.L.L.C.*, *et al.*, PCAOB Release No. 105-2009-001 (Mar. 31, 2009) (imposing sanctions in a case in which a U.S. firm used a significant amount of audit work performed by a Hong Kong firm without adequately coordinating its work with that of the Hong Kong firm).

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(ii) any other person or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework.

For purposes of Form AP, an other accounting firm participated in the audit if (i) the firm filing Form AP assumed responsibility for the work and report of the other accounting firm as described in paragraphs .03 - .05 of AS 1205 (currently AU sec. 543), or (ii) the other accounting firm or any of its principals or professional employees was subject to supervision under AS 1201 (currently Auditing Standard No. 10).

As noted above, the 2013 Release contemplated that disclosure would be required with respect to other "public accounting firms" that took part in the audit. Under the Board's rules, "public accounting firm" means "a proprietorship, partnership, incorporated association, corporation, limited liability company, limited liability partnership, or other legal entity that is engaged in the practice of public accounting or preparing or issuing audit reports."[34] The change in the definition is intended to facilitate compliance and avoid potential uncertainty about the entities for which disclosure must be provided on Form AP.

The amount of disclosure required varies with the level of participation in the audit. For each other accounting firm whose participation accounted for at least 5% of total audit hours, the following information must be provided:

- Legal name;
- A unique five-digit identifier ("Firm ID") for firms that have a publicly available PCAOB-assigned number [35]
- Headquarters office location (city and state (or, if outside the US, city and country)); and
- Extent of participation, expressed as a percentage (either as a single number or within a range) of total audit hours.

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[34] PCAOB Rule 1001(p)(iii), *Definition of Terms Employed in Rules*.

[35] This number can be found by viewing the firm's summary page on the PCAOB website, where it is displayed parenthetically next to the name of the firm—firm name (XXXXX). If the number assigned to the firm by the PCAOB has fewer than five digits, leading zeroes should be added before the number to make the five-digit Firm ID, for example, 99 should be presented as 00099. For example, all currently-registered firms have a number assigned by the PCAOB.

Form AP includes a new requirement to provide the Firm ID for all currently-registered firms as well as other accounting firms that have a publicly available PCAOB-assigned number. Although commenters did not raise a concern about needing unique identifiers for firms as they did for engagement partners, the staff is aware that some accounting firms in the same country may have the same or very similar names. To alleviate possible confusion among accounting firm names and to ensure that firms that have a publicly available PCAOB-assigned number can be more easily linked to other PCAOB registration and inspection data, Form AP requires disclosure of the Firm ID.

Some commenters expressed concern that disclosure of other accounting firms participating in the audit may provide information about the issuer's operations that would not otherwise be required to be disclosed (for example, countries in which the issuer operates). Given that the reporting provides information about where the audit was conducted and not necessarily where the issuer's business operations are located and that the names and locations of other accounting firms are only identified if their work constitutes at least 5% of total audit hours, the Board has not revised the proposed requirements to address this concern.

For other accounting firms that participated in the audit but whose individual participation accounted for less than 5% of total audit hours, the following aggregated information is required:

- The number of such other accounting firms; and
- The aggregate extent of participation of such other accounting firms, expressed as a percentage of total audit hours.

Similar to comments received on the 2011 Release, a few commenters on the 2013 Release suggested that the Board should consider requiring disclosure regarding the nature of the work of or areas audited by other accounting firms. Further, some commenters suggested that the Board require the addition of clarifying language regarding the structure of the firm, the firm's system of quality controls, and the work performed by the firm signing the auditor's report over the work of other accounting firms participating in the audit.

After considering comments on the 2011 and 2013 Releases, no requirement was added for additional clarifying language because the Board does not believe that requiring the disclosure of this more detailed information is necessary to meet the Board's overall objective of this rulemaking. Moreover, the final rules require the firm preparing Form AP to acknowledge its responsibility for the audits or audit procedures performed by other accounting firms that participated in the audit.

ii. *Referred-to Auditors*

In situations in which the auditor makes reference to another accounting firm in the auditor's report,[36] the 2015 Supplemental Request suggested that the auditor would also disclose the name of the other public accounting firm ("referred-to auditor"), the city and state (or, if outside the United States, city and country) of the office of the other public accounting firm that issued the other audit report, and the magnitude of the portion of the financial statements audited by the referred-to auditor on Form AP. The Board is adopting these requirements substantially as described in the 2015 Supplemental Request.[37] The requirement to file Form AP does not apply to referred-to auditors, since the referred-to auditor may not be required to register with the PCAOB[38] and would not generally be conducting the audit of an issuer, but rather a subsidiary or business unit of an issuer.

Unlike the disclosures for other accounting firm participants, which are based on the percentage of total audit hours, Form AP disclosures for referred-to auditors effectively incorporate the existing requirements for disclosure of the magnitude of the portion of the financial statements audited by the referred-to auditor.[39] In addition, Form AP requires the name, the city and state (or, if outside the United States, city and country) of headquarters' office location, and Firm ID, if any, of the referred-to auditor.

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[36] *See* AS 1205.03, .06–.09 (currently AU sec. 543.03, .06-.09).

[37] Additionally, the amendments to AS 1205 (currently AU sec. 543) remove, as unnecessary, the requirement to obtain express permission of the other accounting firm when deciding to disclose the firm's name in the auditor's report because, as discussed below, the SEC rules already include a requirement that the auditor's report of the referred-to auditor be filed with the SEC.

[38] Under PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms*, each public accounting firm that "plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer, broker, or dealer must be registered with the Board."

[39] *See* AS 1205.07 (currently AU sec. 543.07). Existing PCAOB standards require that the auditor disclose the magnitude of the portion of the financial statements audited by the referred-to accounting firm by stating the dollar amount or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly reveals the portion of the financial statements audited by the referred-to accounting firm.

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iii. *Nonaccounting Firm Participants*

Under the 2013 Release, disclosure would have been required with respect to all "persons not employed by the auditor"[40] that the auditor was required to supervise pursuant to AS 1201 (currently Auditing Standard No. 10). Such nonaccounting firm participants would not have been identified by name. Rather, these participants would have been identified in the auditor's report as "persons in [country] not employed by our firm." These disclosures would have permitted investors to determine how much of the audit was performed by nonaccounting firm participants in a particular jurisdiction but not the nature of the work performed by those nonaccounting firm participants or whether they were, for example, offshore service centers, consultants, or another type of entity.

Commenters' reactions to the reproposed disclosure requirements were mixed. Some commenters argued for uniform treatment of accounting firm participants and nonaccounting firm participants, either to make disclosure easier to understand or to avoid the creation of incentives to engage nonaccounting firm participants rather than other accounting firms. Some of these commenters suggested that the nature of services performed by persons not employed by the auditor should also be disclosed. Other commenters questioned the value of the disclosures or suggested that the disclosures could be confusing or subject to misinterpretation. Some commenters were particularly critical of requiring disclosures regarding "offshored" work[41] and work performed by leased personnel (often in firms that have an alternative practice structure[42]). These commenters asserted that work performed by nonaccounting firm

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[40] PCAOB Release No. 2011-007, at 18.

[41] The 2011 Release noted that some accounting firms had begun a practice, known as offshoring, whereby certain portions of the audit are performed by offices in a country different than the country where the firm is headquartered. The Board understands that offshored work may be performed by another office of or by entities that are distinct from, but that may be affiliated with, the registered firm that signs the auditor's report. The Board notes that the practice of sending some audit work to offshore service centers, typically in countries where labor is inexpensive, has been increasing in recent years.

[42] The Board's standards describe alternative practice structures as "nontraditional structures" whereby a substantial (the nonattest) portion of an accounting firm's practice is conducted under public or private ownership, and the attest portion of the practice is conducted through the accounting firm. ET section 101.16, *101-14—The effect of alternative practice structures on the applicability of independence rules.*

participants under the direct supervision and review of the firm signing the auditor's report should not be required to be separately identified, regardless of who performed the work and where the work was performed. One commenter further asserted that disclosure should not be required regarding subsidiaries of, or other entities controlled by, the registered firm issuing the auditor's report or entities that are subject to common control (for example, sister entities that perform tax, valuation, or other assistance to the registered firm), arguing that the manner in which a registered firm is structured should not trigger a disclosure requirement.

The 2015 Supplemental Request solicited comment on eliminating disclosures regarding nonaccounting firm participants or tailoring them to eliminate disclosure for entities that are controlled by or under common control with the auditor, and the employees of such entities. While some commenters supported the disclosure requirements, most argued that disclosure would not be useful and may be confusing or inconsistent, given the differences in legal structures and practice arrangements across global networks.

After considering the comments and the intention of the disclosure, the requirement to disclose the location and extent of participation of nonaccounting firm participants has been eliminated from the final rule.[43] The Board recognizes that, while nonaccounting firms may participate in the audit, the Board's intent is to provide information about the participation of accounting firms. Accounting firms are responsible for supervising the work of nonaccounting firm participants. In addition, the Board's website includes names of registered accounting firms and inspection reports, as well as disciplinary actions with respect to registered public accounting firms. Information about nonaccounting firm audit participants may not be as meaningful to users since similar information is not available for these participants. The Board can monitor trends in the use of nonaccounting firms, which could have an effect on audit quality, and analyze whether such trends are related to the requirements of Form AP.

Nonaccounting firm participants participate in audits at the request of and in support of the audit work of accounting firms participating in the audit. For that reason, unless expressly excluded from the computation of total audit hours (*see* Section III.A.3.b.iv), hours incurred by nonaccounting firm participants in the audit are included in the calculation of total audit hours and should be allocated among the other accounting firms that participated in the audit on the basis of which accounting firm commissioned and directed the applicable work of the nonaccounting firm.

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[43] Unless the context dictates otherwise, "nonaccounting firm participant" as used in this release means any person or entity other than the principal auditor or any other accounting firm that participates in an audit.

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iv. *Exclusions from Disclosure and Computation of Total Audit Hours*

The 2015 Supplemental Request indicated that the following persons would be excluded from the disclosures and from the computation of total audit hours:

- The engagement quality reviewer;[44]
- Persons performing a review pursuant to Appendix K;[45]
- Specialists engaged, not employed, by the auditor;[46]
- Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting;[47] or
- Internal auditors who provided direct assistance in the audit of the financial statements.[48]

While some commenters on the 2015 Supplemental Request suggested that excluding the engagement quality reviewer and Appendix K review from calculation of audit hours

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44 *See* AS 1220 (currently Auditing Standard No. 7), *Engagement Quality Review.*

45 *See supra* 28.

46 AS 1210 (currently AU sec. 336), *Using the Work of a Specialist,* describes a specialist as "a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing." Examples of specialists include, but are not limited to, actuaries, appraisers, engineers, environmental consultants, and geologists. Income taxes and information technology are specialized areas of accounting and auditing and, therefore, persons or firms possessing such skills are not considered specialists. AS 1210.01.

47 *See* paragraph 17 of AS 2201 (currently Auditing Standard No. 5), *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

48 *See* paragraph .27 of AS 2605, *Consideration of the Internal Audit Function* (currently AU sec. 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*).

would add administrative effort, commenters at earlier stages of the rulemaking were supportive of these exclusions. The Board continues to believe that the exclusion of the engagement quality reviewer is appropriate because he or she is not under the supervision of the engagement partner.[49] Similarly, the Appendix K review is excluded because the engagement partner does not supervise or assume responsibility for that work.

The hours incurred by persons employed or engaged by the company who provided direct assistance to the auditor are excluded because determining the extent of their participation in the audit may be impractical. Such persons also may perform other tasks for the company not related to providing direct assistance to the auditor or may not track time spent on providing the direct assistance.

Under the 2013 Release, the hours of persons with specialized skill or knowledge ("specialists") engaged by the auditor were included in the calculation of audit hours. This was a change from the 2011 Release, under which engaged specialists were excluded from total audit hours. One commenter on the 2013 Release suggested that including specialists in the calculation of audit hours and disclosure of persons not employed by the auditor may put firms that engage specialists at a competitive disadvantage compared to firms that employ specialists. Some commenters also expressed concerns that it may be challenging to obtain hours incurred by the specialists, especially in cases where the engagement is on a fixed-fee basis. After considering comments, the Board determined to exclude specialists engaged, not employed, by the auditor from disclosure and the computation of total audit hours.

Some commenters requested clarification regarding the treatment of audit hours related to investments accounted for using the equity method of accounting.[50] The final rules have been revised to clarify that hours incurred in the audit of entities in which the issuer has such an investment are not part of total audit hours.

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[49] Nonetheless, the engagement quality reviewer has an important role in the audit. The engagement quality reviewer performs an evaluation of the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued, in order to determine whether to provide concurring approval of issuance. *See* AS 1220 (currently Auditing Standard No. 7).

[50] *See* Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 323, *Investments—Equity Method and Joint Ventures*.

c. Extent of Participation in the Audit—Percentage of Total Audit Hours

i. *Audit Hours as a Metric for Participation in the Audit*

Under the 2013 Release, the extent of participation in the audit would have been determined using the percentage of total audit hours as the metric.

Most commenters agreed with measurement based on the percentage of audit hours. Some commenters suggested using other metrics, including audit fees, the percentage of assets or revenue that the auditor and other participants were responsible for auditing, and the magnitude of the company's segment or subsidiary audited by the other participants.

After consideration of the comments received, the Board believes that percentage of total hours in the most recent period's audit is an appropriate and practical metric for the extent of other accounting firms' participation in the audit, for the purpose of disclosure on Form AP. Audit fees may not fairly represent the extent of other accounting firms' participation in the audit. Audit fees in the proxy disclosure may include fees for other services (for example, other regulatory and statutory filings) and may exclude fees paid directly to other accounting firms rather than to the auditor. Further, because labor rates vary widely around the world, audit fees would result in an inconsistent metric compared to audit hours. The use of revenue or assets tested may not be suitable in all circumstances, particularly when other accounting firms and the auditor perform audit procedures on the same location, business unit, or financial statement line item.

The firm should document in its files the computation of total audit hours on a basis consistent with AS 1215 (currently Auditing Standard No. 3), *Audit Documentation*.[51]

ii. *Elements of Total Audit Hours*

In general, total audit hours will be comprised of the hours of the principal auditor, nonaccounting firm participants that assist the principal auditor or other accounting firms, and other accounting firms participating in the audit. Total audit hours exclude hours incurred by the engagement quality reviewer, Appendix K reviewer,

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[51] Under AS 1215 (currently Auditing Standard No. 3), the audit documentation should be in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand the computation of total audit hours and the method used to estimate hours when actual hours were unavailable.

specialists engaged by the auditor, internal audit, among others. *See* Section III.A.3.b.iv.

iii. *Disclosure Threshold*

The 2013 Release set 5% of total audit hours as the threshold for identification of other participants in the audit. Many commenters supported the 5% threshold. Other commenters suggested various other thresholds, such as 3%, 10%,[52] or the PCAOB's substantial role threshold of 20%.[53]

The Board's intention is to provide meaningful information to investors and other financial statement users about participants in the audit, without imposing an undue compliance burden on auditors. Based on PCAOB staff analysis of available data about the participation of other accounting firms in the audit, the Board believes using a 5% threshold would, in most cases, result in disclosing the names of other accounting firms that collectively make up most of the audit effort (measured by hours) beyond that of the firm signing the auditor's report, and would result in identification of one or two other participant(s) on average.[54] The final rule therefore retains the threshold at 5% of total

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[52] On the 2011 Release, commenters suggested 10% to be consistent with certain requirements in accounting standards, such as the 10% of revenue threshold for disclosing sales to a single customer under FASB pronouncements. *See* FASB ASC, Topic 280, *Segment Reporting*, subparagraph 10-50-42.

[53] According to paragraph (p)(ii), "Play a Substantial Role in the Preparation or Furnishing of an Audit Report," of PCAOB Rule 1001, "[t]he phrase 'play a substantial role in the preparation or furnishing of an audit report' means—(1) to perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report, or (2) to perform the majority of the audit procedures with respect to a subsidiary or component of any issuer, broker, or dealer the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer, broker, or dealer necessary for the principal auditor to issue an audit report [on the issuer]." Under Rule 2100, each public accounting firm that "plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer, broker, or dealer must be registered with the Board."

[54] PCAOB staff analyzed information provided by auditors of more than 100 larger issuers with respect to audit engagements conducted in 2013 and 2014. The selected information included the names of other accounting firms that participated in the audit and their individual extent of participation as a percentage of the total audit hours, without using a threshold. The Board's staff used this information to determine the approximate number of other accounting firm participants in larger audit

audit hours. The final rule also requires firms to disclose the total number of other accounting firms that were individually less than 5% and their total extent of participation to provide investors and others with a complete picture of the effort by participating firms.

iv. *Presentation as a Single Number or Within a Range*

The 2013 Release would have required firms to disclose the percentage of total audit hours of other participants either as a single number or within a series of ranges. Commenters supported the ability to present the disclosure of other participants in ranges or as a single number. This requirement is being adopted in Form AP as reproposed to provide firms flexibility in completing the disclosures while providing investors and other financial statement users meaningful information about the relative extent of participation of other accounting firms and to allow firms flexibility to choose the method of presentation, i.e., as a single number or within a range, that best suits their circumstances, for all other accounting firms required to be identified.

v. *Use of Estimates*

The 2013 Release stated that auditors would be able to use estimates of audit hours when actual hours were not available. Many commenters on the 2015 Supplemental Request requested clarification that estimation of audit hours would be permitted. To respond to commenters' concerns, the instructions to Form AP provide that firms may use a reasonable method to estimate audit hours when actual hours have not been reported or are otherwise unavailable. The firm should document in its files the method used to estimate hours when actual audit hours are unavailable on a basis consistent with AS 1215 (currently Auditing Standard No. 3).

B. Liability Considerations

Throughout the Board's rulemaking process, commenters have expressed concern about the impact that public identification of key audit participants, particularly in the auditor's report, could have on the potential liability or litigation risks of those participants under the federal securities laws. The Board takes these concerns seriously and has sought comment throughout this rulemaking on various means of disclosure—from engagement partner signature on the auditor's report, to disclosure in the auditor's report, to disclosure on Form AP—in part to respond to them. The Board believes the final rule accomplishes its disclosure goals while appropriately addressing these concerns by commenters.

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engagements that would be required to be disclosed individually using 3%, 5%, and 10% thresholds.

As noted in the 2015 Supplemental Request, some commenters on the 2013 Release suggested that identifying the engagement partner and the other participants in the audit in the auditor's report could create both legal and practical issues under the federal securities laws by increasing the named parties' potential liability and could require their consent if the auditors' reports naming them were included in, or incorporated by reference into, registration statements under the Securities Act.[55] In addition, some commenters expressed concerns about the possible effects of the engagement partner's name appearing in the auditor's report on liability and litigation risk under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. In their view, identification in the auditor's report could make it more likely that identified persons would be named in a lawsuit or could affect their liability position. Many commenters on the 2013 Release urged the Board to proceed with the new disclosure requirements, if it determined to do so, by mandating disclosure on an amended PCAOB Form 2, firm's annual report, or on a newly created PCAOB form as a means of responding to such concerns.

Other commenters stated that, in view of the PCAOB's investor protection mission, the 2013 Release gave too much weight to commenters' concerns about liability. These commenters asserted that naming the engagement partner, in itself, would not affect the basis on which liability could be founded.

The 2015 Supplemental Request solicited comment on whether disclosure on Form AP would mitigate commenters' concerns about liability-related consequences under federal or state law. While some commenters asserted that requiring disclosure on Form AP would not reduce litigation risk, others argued that there was no risk that Form AP disclosure would give rise to additional liability. Most accounting firms that commented on the issue agreed that Form AP would address some or all of their liability concerns. Several commenters asserted that the use of Form AP would eliminate the need to obtain consents under Section 7 of the Securities Act and mitigate or eliminate concerns about potential liability under Section 11 of the Securities Act. Commenter views on the impact of Form AP on potential liability under Exchange Act Section 10(b) and Rule 10b-5 were less uniform, with some saying that disclosures on Form AP would not have an impact on potential liability under Section 10(b) and Rule 10b-5, some suggesting the disclosures on Form AP would increase potential liability, and others

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[55] Section 11 of the Securities Act imposes liability on certain participants in a securities offering, including every accountant who, with his or her consent, has been named as having prepared or certified any part of the registration statement or any report used in connection with the registration statement. Section 7 of the Securities Act requires that the consent of every accountant so named in a registration statement must be filed with the registration statement.

saying that the impact would be uncertain because of continued development of the law in the area.

The Board believes that disclosure on Form AP appropriately addresses concerns raised by commenters about liability. As commenters suggested, disclosure on Form AP should not raise potential liability concerns under Section 11 of the Securities Act or trigger the consent requirement of Section 7 of that Act because the engagement partner and other accounting firms would not be named in a registration statement or in any document incorporated by reference into one.[56] While the Board recognizes that commenters expressed mixed views on the potential for liability under Exchange Act Section 10(b) and Rule 10b-5 and the ultimate resolution of Section 10(b) liability is outside of its control, the Board nevertheless does not believe any such risks warrant not proceeding with the Form AP approach.

Finally, one commenter asserted that the Board should not pursue disclosure requirements for the engagement partner and other participants in the audit unless it can be done in a "liability neutral" way. The Board's purpose in this project is not to expose auditors to additional liability, and, consistent with that, it has endeavored to reduce any such liability consequences. The Board does not agree, however, that it should not seek to achieve the anticipated benefits of a new rule—here, increased transparency and accountability for key participants in the audit—unless it can somehow be certain that its actions will not affect liability in any way. On the whole, the Board believes it has appropriately addressed the concerns regarding liability consequences of its proposal in a manner compatible with the objectives of this rulemaking, and in view of the rulemaking's anticipated benefits.

C. Voluntary Disclosure in the Auditor's Report

The 2015 Supplemental Request solicited comment on whether, in addition to filing Form AP, auditors could voluntarily provide the same information in the auditor's report. Comments on this issue were mixed. Several commenters noted that they preferred disclosure of this information in the auditor’s report, although they were willing to accept Form AP as a compromise. Another commenter stated that optionality about whether to provide disclosure in the auditor's report could also provide a signal for differentiation.

Other commenters, including almost all the accounting firms that commented, suggested that the Board should prohibit or not encourage voluntary disclosure in the

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[56] While the requirement to file Form AP is triggered by the issuance of an auditor's report, the form would not automatically be incorporated by reference into or otherwise made part of the auditor's report.

auditor's report. They stated that voluntary disclosure in the auditor's report would give rise to the same legal and practical challenges as the previously proposed required auditor's report disclosure. Some of these commenters suggested that if the auditor chose to add disclosures in the auditor's report then related costs would also increase. Some other commenters were concerned that information in some, but not all, auditors' reports may confuse financial statement users about where to obtain the information.

The amendments will permit voluntary disclosure in the auditor's report. AS 3101 (currently AU sec. 508) is amended to permit voluntary disclosure in the auditor's report of the engagement partner and other accounting firms. AS 1205 (currently AU sec. 543) is amended to permit firms to disclose in certain circumstances that other accounting firms participated in the audit, which had been previously prohibited. Under these amendments, auditors can provide information in the auditor's report about the engagement partner, other accounting firms, or both, choosing if any information is disclosed in the auditor's report. However, Form AP will provide investors and financial statement users with all of the required disclosures.

If disclosure is made in the auditor's report about other accounting firms, the disclosure must include information about all of the other accounting firms required on Form AP, so that auditors cannot choose to include some other accounting firms and exclude others. The auditor's report must also include a statement confirming the principal auditor's responsibility for the work of other auditors and that it has supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards, to avoid potential confusion about the respective responsibilities of the principal auditor and the other accounting firms. When making these disclosures in the auditor's report, the language should be consistent with PCAOB standards. In particular, any additional language that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor's responsibility for the audit or the audit opinion on the financial statements is not appropriate and may not be used.

The Board is also adopting amendments to AS 1205 (currently AU sec. 543) to remove, as unnecessary, the requirement to obtain express permission of the other accounting firm when deciding to disclose the firm's name in the auditor's report when responsibility for the audit is divided with another firm.[57] Because the SEC rules already include a requirement that the auditor's report of the referred-to firm should be filed with the SEC, the name of the firm is already made public.[58]

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[57] *See* AU sec. 1205.03, .06–.09 (currently AU sec. 543.03, .06-.09).

[58] *See* Rule 2-05 of Regulation S-X, 17 CFR 210.2-05.

Allowing voluntary disclosure in the auditor's report responds to some investors' preference regarding location and timing for disclosures. Some auditors may choose to make the disclosures in the auditor's report, and this might provide auditors a way to differentiate themselves. Auditors are not required to include anything in the auditor's report and would presumably do so only if they choose, taking into account, for example, any costs associated with disclosure in the auditor's report, such as obtaining consents pursuant to the Securities Act, if required, and the resulting potential for liability. Inconsistency across auditor's reports should not be a source of concern because complete data will be available on the PCAOB's website as a result of mandatory disclosures on Form AP for all issuer audits.

D. Filing Requirements

1. Filing Deadline

The 2015 Supplemental Request contemplated a filing deadline for Form AP of 30 days after the date the auditor's report is first included in a document filed with the SEC, with a shorter deadline of 10 days for initial public offerings ("IPOs"). This period was intended to balance the time needed to compile the required information, particularly for firms that submit multiple forms at the same time, with investor preference that the information be made available promptly.

Comments on the filing deadline were mixed. Some commenters preferred a shorter filing deadline, suggesting that the form should be filed concurrently with the issuance of the auditor's report or within 10 days of initial SEC filing, similar to the deadline for IPOs. In their view a shorter deadline would make it more likely that the information would be available for investors to consider in connection with their voting and investment decisions.

Other commenters suggested a longer filing deadline, which would provide firms with additional time to gather the information. Some of these commenters also indicated that with a longer deadline the information regarding the extent of participation of other accounting firms would be more accurate, requiring less estimation. These commenters suggested several alternative deadlines, including:

- 45 days after the report issuance, to coincide with the documentation completion date;[59]

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[59] AS 1215 (currently Auditing Standard No. 3) requires that a complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date.

- 60 days after report issuance, which would include the 45-day documentation completion date plus extra time to gather the information;

- Monthly filings, due, for example, at the end of the month subsequent to inclusion in an SEC filing; and

- Quarterly or annual filings.

There were very few comments on the IPO deadline. Of those that commented, most considered the 10-day filing deadline to be appropriate, while some other commenters suggested the deadline be extended, for example to 14 days.

After considering comments, the Board believes the information on Form AP should be made available so that it is useful to investors, while also affording firms sufficient time to compile the necessary information. For audits of non-IPOs, a key consideration is making the identity of the engagement partner publicly available before the shareholder vote to ratify the appointment of the auditor. For audits of IPOs, a key consideration regarding timing is ensuring that the information is available before any IPO roadshow, if applicable.

Taking into account investors' preference for timely access to the information together with commenter suggestions to provide firms with sufficient time to file Form AP, the Board has modified the deadline for filing Form AP to be 35 days after the date the auditor's report is first included in a document filed with the SEC. Based on PCAOB staff's analysis of available data regarding the timing of annual shareholders' meetings, the Board believes that this filing deadline would likely allow information to be provided to investors prior to the annual shareholders' meeting in most cases, thus making the information available in time to inform voting decisions.[60] Filing deadlines of 45 days or greater may not achieve the intended benefits of providing investors with timely information. Firms have the ability to file Form APs in batches, so that firms that prefer to file periodically (for example, every month or twice a month) will be able to do so.

The deadline for filing Form AP in an IPO situation is adopted as contemplated in the 2015 Supplemental Request, as 10 days after the auditor's report is first included in a document filed with the SEC. This deadline is intended to facilitate making the information available prior to the IPO roadshow, if applicable. The text of the rule has been simplified and clarified.

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[60] While there is no requirement under federal securities laws for an issuer to have an annual meeting of shareholders and therefore no uniform deadline for such a meeting, PCAOB staff review indicates that approximately 98% of annual meetings are held 35 days or later after the date of the auditor's report.

2. *Other Filing Considerations*

Many firms commenting on the 2015 Supplemental Request requested additional clarification or guidance about how Form AP requirements would apply in particular circumstances, such as filing requirements for reissued auditor's reports and reporting on mutual fund families, the allocation of audit hours between audits of consolidated financial statements and statutory audits of issuer subsidiaries, and batch filing of Form APs. Some commenters recommended Form AP include other information, such as notification of a change in the engagement partner.

Form AP provides information only about completed audits, so there is no requirement to file in connection with interim reviews (although the hours incurred for interim reviews are included in total audit hours).[61] Form AP is required to be amended only when there was an error or omission in the original submission. Changes from one year to the next (for example, a change in engagement partner from the one assigned in the prior year) do not necessitate an amendment and are reflected on a Form AP that will be filed when the next auditor's report is issued.

If the auditor's report is reissued and dual-dated, a new Form AP is required even when no information on the form, other than the date of the report, changes.[62] If the auditor's report date in Form AP matches the date on the auditor's report, users will be able to match the auditor's report with the related Form AP. To clarify the filing requirements for reissued reports, a note has been added to Rule 3211. The note provides that the filing of a report on Form AP regarding an audit report is required only the first time the audit report is included in a document filed with the Commission. Subsequent inclusion of precisely the same audit report in other documents filed with the Commission does not give rise to a requirement to file another Form AP. In the event of any change to the audit report, including any change in the dating of the report, Rule 3211 requires the filing of a new Form AP the first time the revised audit report is included in a document filed with the Commission.

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[61] In addition, Form AP would not be required to be filed in connection with attestation engagements, for example, compliance with servicing criteria pursuant to SEC Rule 13a-18—Regulation AB.

[62] For example, if a previously issued audit report is reissued and dual-dated to refer to the addition of a subsequent events note in the financial statements, a new Form AP filing would be required. When completing the new form, the firm should consider if any other information should be changed, including information regarding the participation of other accounting firms.

For audits of mutual funds, Form AP permits one form to be filed in cases where multiple audit opinions are included in the same auditor's report—such as in the case for mutual fund families. If multiple audit opinions included on the same auditor's report involved different engagement partners, a Form AP would be filed for each engagement partner, covering the audit opinions for the funds for which he or she served as engagement partner.

When actual hours are not available, auditors may estimate audit hours for purposes of calculating the extent of participation of other accounting firms. This situation may arise, for example, in the context of statutory audits. Accounting firms that participate in audits of multinational issuers often perform local statutory audits of subsidiaries in addition to their participation in the issuer's audit. The materiality threshold and legal requirements for the statutory audit may necessitate a different level of work than would have been required for the issuer's audit. In these cases, it may be difficult for the auditor to determine how much work performed at the subsidiary relates solely to the participation in the issuer's audit. The auditor may use a reasonable method to estimate the components of this calculation, such as 100% of actual hours incurred by other accounting firms during the issuer's audit or estimating the hours incurred by the other accounting firm participating to perform work necessary for the issuer's audit.

To ease compliance, firms must, unless otherwise directed by the Board, file Form AP through the PCAOB's existing web-based Registration, Annual, and Special Reporting system ("RASR") using the username and password they were issued in connection with the registration process.[63] The system requirements for filing Form AP are similar to the system requirements for filing annual and special reports with the PCAOB.

Some accounting firms commented that they would like the ability to file Form APs in batches to reduce their administrative burden. Some of these firms also stated that they would like the ability to file information about more than one audit report on a single Form AP. As described in the 2015 Supplemental Request, the Board has developed a template, also known as a schema, that will allow firms to submit multiple forms simultaneously using an extensible markup language ("XML"). Firms will be able to submit multiple forms simultaneously in a batch when utilizing the schema provided by the Board. Unlike other PCAOB forms, the schema for Form AP will enable firms to complete the entire form using XML rather than only portions of it. After considering

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[63] Form AP is not required to be filed for audit reports issued in connection with non-issuer audits, even when those audits are conducted in accordance with PCAOB standards.

commenters' concerns and the technological constraints of RASR, no changes were made regarding the ability to file information about more than one audit report on a single Form AP.

Form APs filed with the Board will be available on the Board's website. The Board's website will allow users to search Form APs by engagement partner, to find the audits of issuers that he or she led, and by issuer, to find the engagement partner and other accounting firms that worked on its audit. Over time, the PCAOB anticipates enhancing the search functionality and plans to allow users to download search results. The information filed on Form AP is anticipated to be available on the Board's website indefinitely.

A commenter noted that there would be a potential redundancy between Form AP and the list of audit clients and audit reports required on Form 2, and suggested that the Board consider eliminating the Form 2 requirement. After considering the commenter's concern and evaluating the potential redundancies, the Board has determined not to amend Form 2 at this time. While some information on Form 2 does overlap with Form AP, more information is collected on Form 2 than would be filed on Form AP; for example, Form 2 also requires the dates of any consents to an issuer's use of an auditor's report previously issued.

One commenter suggested that Form AP allow a firm to assert that it cannot provide information called for by Form AP without violating non-U.S. laws, which would make Form AP consistent with other forms filed with the Board. The Board is committed to cooperation and reasonable accommodation in its oversight of registered non-U.S. firms, and has provided non-U.S. firms the opportunity to at least preliminarily withhold some information from required PCAOB forms on the basis of an asserted conflict with non-U.S. laws. Generally, the Board has not provided for firms to assert such a conflict with respect to all information required by PCAOB forms. In considering whether to allow the opportunity to assert conflicts, the Board has considered both whether it is realistically foreseeable that any law would prohibit providing the information and, even if it were realistically foreseeable, whether allowing a firm preliminarily to withhold the information is consistent with the Board's broader responsibilities and the particular regulatory objective.[64] In addition, even where the Board has allowed registered firms to assert legal conflicts in connection with Forms 2, 3, and 4, that accommodation does not entail a right for a firm to continue to withhold the information if it is "sufficiently important."[65] In this case, nothing has been brought to the Board's attention indicating a

[64] *See, e.g.*, *Rules on Periodic Reporting by Registered Public Accounting Firms*, PCAOB Release No. 2008-004 (June 10, 2008), at 36–38.

[65] *See id.* at 37–38 n.38.

realistic possibility that any law would prohibit a firm from providing the information, and the information is categorically of sufficient importance that the Board sees no reason to allow a firm to withhold it on the basis of an asserted conflict.

The 2015 Supplemental Request proposed to apply PCAOB Rule 2204, *Signatures*, to Form AP. Application of the rule would have required firms to electronically sign and certify and retain manually signed copies of Form APs filed with the Board. Some commenters identified the manual signature requirement as an administrative burden that would be time consuming and costly. After considering these views, the Board determined to simplify the requirements for Form AP. Firms will be required to have each Form AP signed on behalf of the Firm by typing the name of the signatory in the electronic submission, but there is no requirement for manual signature or retention of manually signed or record copies.

IV. <u>Economic Considerations</u>

The Board is mindful of the economic impacts of its standard setting. The following discussion addresses in detail the potential economic impacts, including potential benefits and costs, most recently considered by the Board. The Board has requested input from commenters several times over the course of the rulemaking. Commenters provided views on a wide range of issues pertinent to economic considerations, including potential benefits and costs, but did not provide empirical data. The potential benefits and costs considered by the Board are inherently difficult to quantify, therefore the Board's economic discussion is qualitative in nature.

Commenters who commented specifically on the economic analysis in the Board's 2015 Supplemental Request provided a wide range of views. Some commenters provided academic research in support of their views for the Board to consider. Some commenters expressed concern that the economic analysis in the Board's 2015 Supplemental Request was unpersuasive or incomplete. Other commenters said that the Board's economic analysis carefully reviewed the relevant evidence on the potential costs and benefits attributable to the disclosures. The Board has considered all comments received and has sought to develop an economic analysis that evaluates the potential benefits and costs of mandating the disclosures in Form AP, as well as facilitates comparisons to alternative approaches.

A. Need for Mandatory Disclosure

There exists an information asymmetry[66] between users of the financial statements and management about the company's performance, and high quality

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[66] Economists often describe information asymmetry as an imbalance, where one party has more or better information than another party.

financial information can help mitigate this information asymmetry. Audit quality matters to users of the financial statements, because audit quality is a component of financial reporting quality, in that high audit quality increases the credibility of financial reports. Thus, better knowledge of audit quality can help mitigate the information asymmetry between users of the financial statements and management about company performance.

Users of financial statements are generally not in a position to observe the quality of the audit of a public company or the factors that drive audit quality. In addition to relying on the audit committee, which, at least for listed companies, is charged with overseeing the external auditor, users of financial statements may rely on proxies such as the reputation of the accounting firm issuing the auditor's report, aggregated measures of auditor expertise (for example, dollar value of issuer market capitalization audited or audit fees charged), or information about the geographic location of the office where the auditor's report was signed as a signal for audit quality.[67] Users of financial statements could seek to reduce the degree of information asymmetry between them and management by gathering information about the skills, expertise, and independence of the engagement partner and firms that participate in the audit.

The Board is considering a number of ways to provide more information related to audit quality. In addition to the disclosures of the engagement partner and certain audit participants mandated in Form AP, these efforts include formulation of a series of audit quality indicators, a portfolio of quantitative measures that may provide new insights into how quality audits are achieved.[68] The Board is also considering a standard that would update the form and content of the auditor's report to make it more relevant and informative by, among other things, including communication of critical audit matters.[69] The Board intends that, over time, these and other efforts will provide investors and other financial statement users with additional information they can use when evaluating audit quality. When used in conjunction with other publicly available data (including any audit quality indicators that are made publicly available), the name of the engagement partner and information about other participants in the audit, collectively, could provide more information about audit quality.

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[67] *See, e.g.*, Linda Elizabeth DeAngelo, *Auditor Size and Audit Quality*, 3 Journal of Accounting and Economics 183 *passim* (1981); and Jere R. Francis, *What Do We Know About Audit Quality?*, 36 The British Accounting Review 345 *passim* (2004).

[68] *See* PCAOB Release No. 2015-005.

[69] *See* PCAOB Release No. 2013-005.

PCAOB oversight activities have revealed that audit quality varies among engagement partners within the same firm. PCAOB oversight activities also reveal variations in audit quality among firms, including variations among firms in the global networks established by large accounting firms. In addition to a number of other factors, the PCAOB uses information about engagement partners and other participants in the audit to identify audit engagements for risk-based selections in its inspections program. Academic research also analyzes variations in audit quality at both the firm and engagement partner levels.[70] These findings suggest that firm reputation is an imprecise signal[71] of audit quality because engagement partners and other audit participants differ in the quality of their audit work.

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[70] *See, e.g.*, W. Robert Knechel, Ann Vanstraelen, and Mikko Zerni, *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*, 32 Contemporary Accounting Research 1443 (2015); Daniel Aobdia, Chan-Jane Lin, and Reining Petacchi, *Capital Market Consequences of Audit Partner Quality*, 90 The Accounting Review 2143 (2015); and Carol Callaway Dee, Ayalew Lulseged, and Tianming Zhang, *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings*, 90 The Accounting Review 1939 (2015). Professors Dee and Aobdia are former and current research fellows at the PCAOB. Their research cited above was undertaken prior to joining the PCAOB. On the point of whether audit quality varies within accounting firms, a commenter suggested additional research to consider. *See* Steven F. Cahan and Jerry Sun, *The Effect of Audit Experience on Audit Fees and Audit Quality*, 30 Journal of Accounting, Auditing and Finance 78 (2015) (clients of more experienced CPAs have lower absolute discretionary accruals than clients of less experienced CPAs); Kim Ittonen, Karla Johnstone, and Emma-Riikka Myllymäki, *Audit Partner Public-Client Specialisation and Client Abnormal Accruals*, 24 European Accounting Review 607 (2015) (a significant negative association between greater public-client specialization and absolute abnormal accruals); and Ferdinand A. Gul, Donghui Wu, and Zhifeng Yang, *Do Individual Auditors Affect Audit Quality? Evidence from Archival Data*, 88 The Accounting Review 1993 *passim* (2013) (individual audit partners affect audit quality in ways that are both economically and statistically significant).

[71] Information economics frequently treats information as consisting of two components: a signal that conveys information and noise which inhibits the interpretation of the signal. Precision is the inverse of noise so that decreased noise results in increased precision and a more readily interpretable signal. *See*, *e.g.*, Robert E. Verrecchia, *The Use of Mathematical Models in Financial Accounting*, 20 Journal of Accounting Research 1 *passim* (1982).

The difficulty that investors and other financial statement users have in evaluating audit quality may have important effects for accounting firms and the functioning of the audit profession and capital markets.[72] The capacity to differentiate between alternative products is a fundamental requirement of competitive markets.[73] One way to improve the functioning of a market is to provide mechanisms that enable market participants to better evaluate quality, thereby reducing the degree of information asymmetry.

Mandating public disclosure of the name of the engagement partner and other accounting firms that participated in an audit provides financial markets with information that may have otherwise been more costly or difficult to obtain. It enables the development of a standardized and comprehensive source of data that can facilitate comparison and analysis, which would be more valuable than a potentially piecemeal data source that could develop under a voluntary disclosure regime. Mandating public disclosure also assures that the information is accessible to all market participants, so that any value-relevant information can more readily be incorporated into market prices.

This information may influence investors' decisions and allow them to make better informed investment decisions. The disclosure of information may also lead the identified parties to change their behavior because they know their performance can be more broadly and easily observed by investors and other financial statement users. In general, an important feature of accountability is identifiability.[74] In the context of the audit, transparency will allow market participants to separately identify auditors from the

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[72] There is a long stream of research regarding the effects that information asymmetry about product features, such as quality, and disclosure have on markets. *See, e.g.*, George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 84 The Quarterly Journal of Economics 488 *passim* (1970); and Robert E. Verrecchia, *Essays on Disclosure*, 32 Journal of Accounting and Economics 97 (2001).

[73] *See, e.g.*, George J. Stigler, *Perfect Competition, Historically Contemplated*, 65 The Journal of Political Economy 1 *passim* (1957).

[74] Academic research finds that accountability is a complex phenomenon and is affected by numerous factors. *See, e.g.*, Jennifer Lerner and Philip Tetlock, *Accounting for the Effects of Accountability*, 125 Psychological Bulletin 255 *passim* (1999). *See also* Todd DeZoort, Paul Harrison, and Mark Taylor, *Accountability and Auditors' Materiality Judgments: The Effects of Differential Pressure Strength on Conservatism, Variability, and Effort,* 31 Accounting, Organizations and Society 373 (2006).

accounting firm signing the auditor's report. This disclosure will impose incremental reputation risk, which should, at least in some circumstances, lead to increased accountability because the ability for investors and other financial statement users to identify and evaluate the performance of engagement partners and other accounting firms may induce changes in behavior.

Because of the influence that engagement partners and other accounting firms participating in the audit can exert over the audit process, information about the people and entities who actually performed the audit of a particular company will be a useful addition to the mix of information related to the audit that investors can use to assess audit quality and hence credibility of financial reporting. As identifying information becomes publicly available, it could also provide a further incentive to engagement partners and other accounting firms that participate in the audit to develop and enhance a reputation for providing reliable audits and to avoid being associated with adverse audit outcomes that could be attributed to deficiencies in their audit work.[75]

Under the disclosures adopted by the Board, investors would gain additional information that could help them assess the reputation of not only the firm, but also of the engagement partner on the audits of companies in which they invest, which they can use as a signal for audit quality. Likewise, investors will have visibility into the extent of the audit work being performed by other accounting firms that participated in the audit, including accounting firms in jurisdictions where the PCAOB has been unable to conduct inspections. Collectively, the disclosures, when used in conjunction with other publicly available data, can facilitate investors' ability to assess audit quality and hence credibility of financial reporting by providing investors with information about who conducted the audit and the extent to which the accounting firm signing the auditor's report used the audit work performed by other accounting firms.

Although the disclosure of the name of the engagement partner might provide limited information initially, experience in other countries suggests that over time the disclosures would enable databases to be developed that would allow investors and other financial statement users to evaluate a number of data points about the engagement partner,[76] including:

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[75] Adverse audit outcomes may include financial statement restatements for errors, nontimely reporting of internal control weaknesses, and nontimely reporting of going concern issues, among others.

[76] For example, the Taiwan Economic Journal collects data that covers all public companies in Taiwan and includes, among other things, the names of the

- Number and names of other issuer audits for which the partner is the engagement partner;
- Industry experience of the engagement partner;
- Number and nature of restatements of financial statements for which he or she was the engagement partner;
- Number and nature of going concern report modifications on financial statements for which he or she was the engagement partner;
- Number of auditors' reports citing a material weakness in internal control over financial reporting where he or she was the engagement partner;
- Number of years as the engagement partner of a particular company;
- Disciplinary proceedings and litigation in which the engagement partner was involved; and
- Other information about the engagement partner in the public domain, such as education, professional titles and qualifications, and association memberships.

Additional databases may also develop about other accounting firms that participate in public company audits, and additional data points should contribute to the mix of information that investors would be able to use, such as:

- The extent of the audit performed by the firm signing the auditor's report;
- The extent of participation in the audit by other accounting firms in other jurisdictions, including jurisdictions in which the PCAOB cannot currently conduct inspections;[77]
- Whether the other accounting firms are registered with the PCAOB, have been inspected, and the inspection results, if any;

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engagement partners, the accounting firms issuing auditors' reports, the regulatory sanction history of the partners, and the audit opinions.

[77] *See Non-U.S. Firm Inspections* on the PCAOB's website for information about firms in non-U.S. jurisdictions that deny PCAOB inspection access.

- Industry experience of the other accounting firms;
- Whether the other accounting firms belong to a global network;
- Trends and changes in the level of participation of other accounting firms in the audit work; and
- Disciplinary proceedings and litigation involving the other accounting firms.

These data points, when analyzed together with the audited financial statements, potential audit quality indicators, and information provided on Form AP, should provide investors with more information about the audit and, therefore, the reliability of the financial statements. As a result, this should reduce the degree of information asymmetry about financial reporting quality between investors and company management.

Providing investors with data at this level of specificity will add to the mix of information that they can use. This could induce changes in the market dynamics for audit services because investors would have additional information about the identity of engagement partners and other accounting firms participating in the audit. If investors are able to identify certain engagement partners and other accounting firms that participated in the audit who consistently perform high-quality audit work, the companies audited by these engagement partners and other accounting firms should benefit from a lower cost of capital relative to those companies whose auditor's performance record suggests a higher risk.[78]

As some engagement partners and other accounting firms that participated in the audit develop a reputation for performing reliable audits, a further incentive may develop for others to attract similarly favorable attention. Conversely, as some engagement partners and other accounting firms are associated with adverse audit outcomes that could be attributed to deficiencies in their audit work, others may have additional incentives to perform audits that comply with applicable standards in order to avoid

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[78] There is an emerging body of academic research analyzing market reactions to disclosure of the engagement partner and the firms participating in audits. *See* Knechel et al., *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*; Aobdia et al., *Capital Market Consequences of Audit Partner Quality*; and Dee et al., *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings.*

similar association.[79] The disclosures may also create additional incentives for audit committees to engage auditors with a reputation for performing reliable audits. As a result, the disclosures may also promote increased competition based on audit quality.

1. Baseline

Current PCAOB rules and standards do not require registered firms to publicly disclose the name of the engagement partner or information about other accounting firms participating in the audit. The identity of the engagement partner is known by people close to the financial reporting process, for example by company management and the audit committee, that interact directly with the engagement partner. Additionally, auditors are required to communicate to the audit committee certain information about other accounting firms and other participants in the audit.[80]

Today, the name of the engagement partner is disclosed in auditors' reports filed with the SEC in only a small percentage of cases, such as when the audit is conducted by a firm having only one certified public accountant whose name appears in the firm's name or by a foreign firm in a jurisdiction in which local requirements or practice norms dictate identification of the engagement partner. The identity of the engagement partner is also sometimes made available to investors attending an annual shareholders' meeting in person. It is possible that engagement partners could be identified in other ways; for example, an academic study inferred that in instances where accounting firm personnel are copied on issuers' correspondence with the SEC's Division of Corporation Finance, the copy party is the engagement partner.[81] However, because there is no current requirement to disclose information about engagement partners, the process of acquiring this information may be costly and the information may be less useful relative to a database that covers audits across time and is available to all interested users.

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[79] The unintended consequence of engagement partner disclosure creating an incentive for some engagement partners to avoid challenging an aggressive accounting treatment in an effort to protect their reputations is discussed in Section B.2.b.iv.

[80] For example, the auditor is required to communicate the names, locations, and planned responsibilities of other independent public accounting firms or other persons not employed by the auditor that perform audit procedures. *See* paragraph 10.d of AS 1301 (currently Auditing Standard No. 16), *Communications with Audit Committees*.

[81] *See* Henry Laurion, Alastair Lawrence, and James Ryans, *U.S. Audit Partner Rotations* (Sept. 14, 2015) (working paper, available in Social Science Research Network ("SSRN")).

With respect to other accounting firms participating in the audit, AS 1205.04 (currently AU sec. 543.04) has prohibited principal auditors from disclosing in the auditor's report the involvement of other accounting firms that participated in the audit unless responsibility for the audit has been divided.[82] However, investors and other financial statement users have been able to obtain information about a limited subset of other accounting firms from PCAOB Form 2.[83]

There are no other current requirements under which the identity of other accounting firms participating in the audit would be publicly disclosed and, to the Board's knowledge, firms generally do not make such information public.[84]

B. The Impact of Disclosure

The final rules adopted by the Board impact certain participants in the audit, financial statement users, and companies to the extent that this information is currently not publicly available and affects participants' decision making. As discussed below, not all of these market participants are affected in the same ways or to the same degree.

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[82] The sentence in AS 1205.04 (currently AU sec. 543.04) that states that if the principal auditor decides not to make reference to the work of other auditors, the principal auditor "should not state in his report that part of the audit was made by another auditor because to do so may cause a reader to misinterpret the degree of responsibility being assumed" is deleted under the amendments. In the Board's view, the language included on Form AP clearly states the auditor's responsibility regarding the work of other participants in the audit and should not cause financial statement users to misinterpret or be confused about the degree of responsibility being assumed by the accounting firm signing the auditor's report.

[83] PCAOB Form 2 requires independent public accounting firms that audited no issuers during the applicable reporting period to provide information on each issuer for which they "play[ed] a substantial role in the preparation or furnishing of an audit report," as defined by PCAOB Rule 1001(p)(ii).

[84] Item 9(e)(6) of Schedule 14A (17 CFR 240.14a-101) requires disclosure of the percentage of hours expended on the audit of the financial statements for the most recent fiscal year by persons other than the principal accountant's full-time, permanent employees, if greater than 50% of total hours, but does not require identification of such persons.

1. *The Benefits of Disclosure*

The final rules adopted by the Board aim to improve the transparency and accountability of issuer audits by adding to the mix of information available to investors. Among other things, the disclosures would allow investors to research whether engagement partners have been associated with adverse audit outcomes that could be attributed to deficiencies in their audit work or have been sanctioned by the PCAOB or SEC. The disclosures could also allow financial statement users to understand how much of the audit was performed by the firm issuing the report and how much was performed by other accounting firms, including those in jurisdictions where the PCAOB has been unable to conduct inspections. Moreover, as the disclosed information accumulates and is aggregated and analyzed in conjunction with other publicly available information, investors and financial intermediaries (for example, research analysts and credit rating agencies) would have a basis to evaluate additional data points, together with the information disclosed on Form AP, that may give them insight into individual audits. While this information may not be useful in every instance or meaningful to every investor, as discussed in more detail below, academic research suggests that, overall, the disclosures add to the mix of information used by investors.[85]

Disclosures regarding the engagement partner and the other accounting firms that participated in the audit would allow investors and other financial statement users to supplement the accounting firm's name with more granular information when assessing audit quality and hence the credibility of financial reporting. The disclosed information will provide investors and other financial statement users with more information about individual audits in accounting firms that conduct a large number of issuer audits. This information should be particularly valuable to investors where there is a greater degree of information asymmetry, as may be the case for smaller and less seasoned public companies.

The new disclosures should, at least in some circumstances, also increase accountability for auditors through Justice Brandeis' "disinfectant" effect: disclosure of their names, when accompanied by other information about their history, should create incentives for the engagement partner and other accounting firms to take voluntary steps that could result in improved audit quality. The additional incentives likely will be a result of Form AP disclosures imposing additional reputation risk on engagement

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[85] *See, e.g.*, Knechel et al., *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*; Aobdia et al., *Capital Market Consequences of Audit Partner Quality*; and Dee et al., *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings*.

partners and other accounting firms. The effect on accountability is not expected to be uniform across all engagement partners and other accounting firms.

a. Transparency

The PCAOB uses various data, including information about engagement partners and other accounting firms, to identify audit engagements for its risk-based inspections program. Over time, financial statement users would be able to combine the disclosed information with other financial information, such as any previous adverse audit outcomes that could be attributed to deficient audit work, which would allow them to better assess the quality of individual audits. For example, investors and other financial statement users would be able to observe whether financial statements audited by the engagement partner have been restated or whether the engagement partner has been sanctioned by the PCAOB or SEC, and investors and other financial statement users could also research other publicly available information about the engagement partner.

Commenters provided mixed views regarding the usefulness of the disclosures. While some commenters argued that the information would not be useful or could be confusing,[86] other commenters indicated that this information may be useful for investment decisions and decisions about whether to ratify the appointment of an accounting firm. On the point of whether investors may misunderstand the role of engagement partners, for example, a commenter cited academic research suggesting that, "...investors process public information in a sophisticated manner and investor responses to public disclosures cause relevant information to be reflected in security prices."[87]

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[86] *See* Sections III.A.2 and III.A.3 for a discussion of commenter reactions to the disclosure requirements.

[87] *See* Letter from Maureen McNichols, Marriner S. Eccles Professor of Public and Private Management and Accounting, Stanford University Graduate School of Business, to the Office of the Secretary, PCAOB (Aug. 31, 2015). The commenter references several academic papers in support of the argument that investors are able to incorporate information into security prices. See Maureen McNichols, *Evidence of Informational Asymmetries from Management Earnings Forecasts and Stock Returns*, 64 The Accounting Review 1 (1989) (The differential response to forecasts which are ex post too high or too low indicates that, in the aggregate, investors do not take management forecasts at face value.), or Maureen F. McNichols and Stephen Stubben, *The Effect of Target-Firm Accounting Quality on Valuation in Acquisitions*, 20 Review of Accounting Studies 110 (2015) (accounting information helps mitigate information asymmetry between acquirers and target firms).

i. *Disclosure Regarding the Engagement Partner*

Other countries have adopted or may soon adopt requirements to disclose the name of the engagement partner.[88] Experiences from countries that have already adopted similar disclosure requirements are important in assessing possible consequences, intended or not, of any changes in this area. Recent academic research conducted using data from those jurisdictions has studied how investors and other financial statement users use the information to assess audit quality, and hence credibility of financial reporting. Disclosures of this type have been found to have informative value in other settings, and empirical studies using data from the jurisdictions where the disclosures are available, discussed below, suggest that these disclosures would be useful to investors and other financial statement users. However, in considering the implications of these studies for the audits under the Board's jurisdiction, the Board has been mindful, as some commenters suggested, of the specific characteristics of the U.S.-issuer audit market, which may make it difficult to generalize observations made in other markets. For example, results from non-U.S. studies may depend on different baseline conditions (for example, market efficiency, affected parties, policy choices, legal environment, or regulatory oversight) than prevail in the United States.

Several studies have examined whether engagement partner disclosure requirements affect the price of securities and promote a more efficient allocation of capital. Knechel et al. found "considerable evidence that similar audit reporting failures persist for individual partners over time" and that, in Sweden, where engagement partners' names are disclosed, "the market recognizes and prices differences in audit reporting style among engagement partners" of public companies.[89]

In a critique that will be published alongside the original manuscript, Kinney described several issues that challenge the validity of the results from the Knechel et al. paper.[90] In particular, Kinney argued that it may be difficult to generalize the results from the Knechel et al. paper because many of the results from the original paper were obtained using data on private companies that undergo statutory audits under Swedish law. In addition, Kinney argued that the accuracy of going concern evaluations is a

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[88] *See* Section II.B.

[89] *See* Knechel et al., *Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*.

[90] *See* William R. Kinney, *Discussion of "Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions*," 32 Contemporary Accounting Research 1479 (2015).

relatively poor measure of audit quality compared to financial statement misstatements. Kinney also noted that the Knechel et al. paper does not attempt to control for the effects of the mechanism by which audit partners are assigned to specific engagements. Kinney argued that if accounting firms assign high-quality audit partners to risky audit engagements, then the results from the Knechel et al. paper would have the opposite interpretation. Ultimately, Kinney argued that it may be inappropriate to conclude that engagement partner names would provide useful information to U.S. financial markets based on evidence obtained from the available studies.[91]

Other papers using data from foreign jurisdictions also analyze whether capital markets react to data on engagement partner quality and experience. For example, Aobdia et al. used data from Taiwan and found that both debt and equity markets priced engagement partners' quality, where higher quality is measured by the companies' lower level of discretionary accruals.[92] Results are similar when the authors used regulatory sanctions history as an alternate measure of engagement partner quality, which they argue is less subject to measurement error than estimates of discretionary accruals. This result partially addresses the concerns raised in Kinney's discussion paper about using discretionary accruals as a measure of audit quality.[93] Evidence from another study using data from Taiwan is consistent with these results.[94]

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91 Kinney suggests that other papers referenced in the Board's 2013 release could benefit from additional effort to bolster the validity of the research methodologies. For example, Kinney suggested that the authors of these papers could work with accounting firms to compare the proxies for audit quality used in academic research, such as discretionary accruals or the accuracy of going concern evaluations, with the accounting firms' proprietary assessment of engagement partner quality. The Board recognizes that discretionary accruals and the accuracy of going concern evaluations are only proxies for audit quality. However, a recent academic study has assessed the validity of commonly used proxies for audit quality by analyzing their associations with PCAOB inspection findings, which may be a more precise measure of audit quality. *See* Daniel Aobdia, *The Validity of Publicly Available Measures of Audit Quality: Evidence from the PCAOB Inspection Data* (June 30, 2015) (working paper, available in SSRN).

92 *See* Aobdia et al., *Capital Market Consequences of Audit Partner Quality*.

93 *See* Kinney, *Discussion of "Does the Identity of Engagement Partners Matter? An Analysis of Audit Partner Reporting Decisions."*

94 *See* Wuchun Chi, Linda A. Myers, Thomas C. Omer, and Hong Xie, *The Effects of Audit Partner Pre-Client and Client-Specific Experience on Audit Quality and on Perceptions of Audit Quality* (Jan. 2015) (working paper, available in SSRN) (Auditor

Another paper using data from Taiwan found that recent financial statement restatements disclosed by an engagement partner's client are associated with a higher likelihood of that engagement partner's other clients misstating in the current year.[95] However, the authors find that this effect was mitigated by the engagement partner's experience. Although these results are based on evidence from a non-U.S. jurisdiction, they suggest that the disclosures could provide investors with useful information about the reliability of other financial statements audited by individual engagement partners who have been associated with a recent financial statement restatement.

The limited research on engagement partner identification in the United States provides some support that the name of the engagement partner may be used as a signal of audit quality. Using data collected from SEC comment letters, Laurion et al. find substantial increases in the number of material restatements of previously issued financial statements and total valuation allowances after engagement partner rotations.[96] While the authors do not explicitly analyze potential benefits related to engagement partner disclosure, they argue that engagement partner disclosures would reveal partner rotations, thus providing meaningful information to investors, supporting the PCAOB's rulemaking initiative.

The Board believes that a requirement to disclose the name of the engagement partner may provide useful information to financial markets based on extensive public outreach and its own experience conducting its inspection program. The Board notes that it may not be possible to generalize results of academic studies, including those based on data in foreign jurisdictions. However, the papers discussed above typically

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experience is an important factor in determining audit quality and the perceived level of audit quality as measured by the bank loan interest rate spread).

[95] *See* Wuchun Chi, Ling Lei Lisic, Linda A. Myers, and Mikhail Pevzner, *Information in Financial Statement Misstatements at the Engagement Partner Level: A Case for Engagement Partner Name Disclosure?* (Jan. 2015) (working paper, available in SSRN). There is an additional paper with similar results about the effects of engagement partner performance history and the likelihood of restatement. *See also* Yanyan Wang, Lisheng Yu, and Yuping Zhao, *The Association between Audit-Partner Quality and Engagement Quality: Evidence from Financial Report Misstatements*, 34 Auditing: A Journal of Practice and Theory 81 (2015).

[96] *See* Laurion et al., *U.S. Audit Partner Rotations*. Engagement partner rotation was inferred from changes in accounting firm personnel copied on issuer correspondence with the SEC's Division of Corporation Finance.

find evidence consistent with a broad stream of academic literature demonstrating that markets benefit from more information associated with quality.

ii. *Disclosure Regarding Other Participants in the Audit*

Empirical evidence also suggests that the market values information about other participants in the audit. Dee et al. examined the effect on issuers' stock prices[97] when investors learn (from participating auditors' Form 2 filings) that these issuers' audits included the substantial use of other accounting firms that do not audit other issuers. Using event study methodology, the authors find that, when accounting firms disclosed in Form 2 the identity of issuer audits in which they substantially participated, the stock prices of these issuers were negatively affected. The authors also find that earnings surprises for these issuers are less informative to the stock market after these disclosures in Form 2 are made, meaning that investors perceive earnings quality to be lower.[98] The authors concluded that the results of the study suggested "that PCAOB mandated disclosures by auditors of their significant participation in the audits of issuers provides new information, and investors behave as if they perceive such audits in which other participating auditors are involved negatively." It should be noted that the negative market reaction in this instance may, at least to some extent, reflect the fact that the other participants in the study were auditors that have no issuer clients themselves but play a substantial role (*i.e.*, participate at least 20%) in an audit of an issuer. The disclosures being adopted would also apply to other accounting firms that take a smaller role in the audit and/or may have more experience in the application of PCAOB standards to audits of issuers. Market reaction to disclosures regarding these types of participants may differ.

To the extent that investors and other financial statement users are better able to assess the level of audit risk stemming from multi-location engagements, it should incent the accounting firm signing the auditor's report to use higher-quality, less risky firms as other audit participants. If investors react negatively to the use of an affiliated

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[97] *See* Dee et al., *Who Did the Audit? Audit Quality and Disclosures of Other Audit Participants in PCAOB Filings*.

[98] Academic research suggests that the financial markets' reaction to earnings surprises depends, among other things, upon the extent to which the disclosed earnings are perceived to be reliable. Thus, if markets react less to earnings surprises after an event, it could suggest that the earnings are perceived to be less reliable after the event. Academic research has tied this to perceived audit quality by investors. *See*, e.g., Siew Hong Teoh and T.J. Wong, *Perceived Auditor Quality and the Earnings Response Coefficient*, 68 The Accounting Review 346 (1993).

accounting firm that was previously associated with a failed audit, it may encourage the accounting firm signing the auditor's report to enhance their supervision and risk management practices.[99] It should also provide other accounting firms incentives to increase the quality of their audit work to help ensure that they can continue to receive referred audit work.

b. Accountability

Public disclosure of the name of the engagement partner and other accounting firms may create incentives for the engagement partner and other accounting firms to take voluntary steps that could result in improved audit quality. As discussed above, the Board expects that external sources would develop a body of information about the histories of engagement partners and other accounting firms. Although auditors already have incentives to maintain a good reputation, such as internal performance reviews, regulatory oversight, and litigation risk, such public disclosure likely will create an additional reputation risk, which should provide an incremental incentive for auditors to maintain a good reputation, or at least avoid a bad one. While this would not affect all engagement partners and all other accounting firms participating in audits to the same degree, as some already operate with a high sense of accountability, others may respond to the additional incentives to deliver high quality audits.

The additional incentives likely will be a result of Form AP disclosures imposing additional reputation risk on engagement partners and other accounting firms. As described in the economic literature, reputation risk is not imposed by regulators or courts, but rather by the market through actions such as the threat of termination of business relationships. Auditors and other accounting firms that participated in audits already face some degree of reputation risk. For example, auditors' names are known by their issuers' audit committees, within their audit firms, and to some extent in the audit industry; these parties can potentially alter or terminate current business relationships with the partners or reduce the probability of their being hired in the future, thereby imposing reputation risk on engagement partners. Form AP, by making names publicly available, will further increase reputation risk.

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[99] On whether reputational effects may incent global network firms to monitor audit work performed by an affiliate, there is a paper documenting that global audit firm networks have created a network-wide reputation that is susceptible not only to failures of the U.S. Big 4, but also to those of non-U.S. affiliates. *See* Yoshie Saito and Fumiko Takeda, *Global Audit Firm Networks and Their Reputation Risk*, 29 Journal of Accounting, Auditing and Finance 203 (2014).

i. *Disclosure Regarding the Engagement Partner*

Form AP will make the names of engagement partners known to investors and audit committees of companies that have not worked with the engagement partner. To the extent such knowledge affects their current business relationships or future job market prospects, Form AP disclosures likely will impose additional reputation risk on engagement partners. For example, shareholders may express their discontent with an engagement partner though their voting decisions on the ratification of the audit firm, and to the extent that shareholder votes can affect the engagement partner's job market projects, the engagement partner would face increased reputation risk, hence higher accountability.

Many investors, as well as some other commenters, believe that public identification of the engagement partner may result in increased accountability, which could prompt voluntary changes in behavior. However, other commenters, primarily accounting firms, asserted that disclosure of engagement partners would not affect accountability. If engagement partner behavior were to change, such changes could include increased professional skepticism, which could, in turn, result in better supervision of the engagement team and lower reliance on management's assertions. The auditor may have greater willingness to challenge management's assertions in the auditor's consideration of the substance and quality of management's financial statements and disclosures. In addition, public disclosure of the name of the engagement partner may make that person less willing to accept an inappropriate position accepted by a previous engagement partner because of the potential effects on his or her reputation.[100] The disclosures being adopted by the Board will reveal engagement partner rotations to investors, including instances where engagement partners left the engagement before rotation would have been required.

Academic research also analyzed whether engagement partner disclosures has an effect on accountability.[101] For example, a recent study examined the impact of the

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[100] As discussed previously, an academic study, analyzing instances where engagement partner rotation can be inferred, documents an increased rate of financial statement restatements following the rotation of engagement partners. *See* Laurion, et. al., *U.S. Audit Partner Rotations*.

[101] *See, e.g.,* Joseph V. Carcello and Chan Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom*, 88 The Accounting Review 1511 *passim* (2013); Allen D. Blay, Matthew Notbohm, Caren Schelleman, and Adrian Valencia, *Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate*, 18 International Journal of Auditing 172 (2014); and Ronald R. King, Shawn M. Davis, and Natalia M. Mintchik, *Mandatory*

European Union's audit engagement partner signature requirement on audits in the United Kingdom and found improvements in several proxies for audit quality,[102] as well as a statistically significant increase in audit fees, after controlling for client and auditor characteristics.[103] It is worth highlighting that this study evaluated a policy alternative (a signature requirement) that some commenters have asserted would have a more pronounced effect than the rules being adopted. In addition, the authors note that there were several other audit and financial reporting requirements implemented in the United Kingdom contemporaneously with the signature requirement and, accordingly, it is not possible for the authors to rule out the possibility that these other requirements may have driven their results. Furthermore, the study was conducted using data from the period of the recent financial crisis, which may also have affected the results.

This contrasts with another study suggesting that disclosure requirements could produce limited or no observable improvement in audit quality.[104] Blay et al. analyzed data from the Netherlands and were unable to document any statistically significant changes in audit quality as measured by estimates of earnings quality. The authors speculated that the lack of findings may be attributable to sufficiently high levels of accountability and audit quality in the Netherlands.

As previously noted, the baseline conditions in other jurisdictions may differ from those in the United States, which could affect the extent to which these findings can be generalized to the United States.

Disclosure of the Engagement Partner's Identity: Potential Benefits and Unintended Consequences, 26 Accounting Horizons 533 *passim* (2012).

102 Specifically, Carcello and Li found a significant decline in abnormal accruals, a decrease in the propensity to meet an earnings threshold, an increase in the incidence of qualified auditors' reports, and an increase in a measure of earnings informativeness. Some commenters criticized the use of one of these metrics, abnormal accruals, as a proxy for audit quality. While, as noted in Section IV.B.1.a.i., abnormal accruals are an imperfect proxy for audit quality, the results were corroborated using alternate proxies.

103 Specifically, they find that the increase in audit fees from $475,900 to $477,000 between the pre- and post-signature requirement periods, was statistically significant, after controlling for client and auditor characteristics that could impact audit fees. Carcello and Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom*, at 1532.

104 *See* Blay et al., *Audit Quality Effects of an Individual Audit Engagement Partner Signature Mandate*.

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ii. *Disclosure Regarding Other Participants in the Audit*

While some commenters questioned the value of disclosures regarding other participants in the audit, others argued that the disclosure of the extent of the audit work performed by other participants in the audit could increase accountability for accounting firms that are named. Other commenters indicated that, as with disclosure of the name of the engagement partner, information sources would likely develop over time. This may increase scrutiny of the overall reputation of such firms. This increased reputational risk should incent other accounting firms participating in an audit to perform high-quality audits for all engagements. Further, if another accounting firm performs a substantial portion of the audit, then its reputation would be closely tied to the overall results of the audit. This may help further align the interests of the other accounting firms participating in the audit with investors and other financial statement users and thus enhance audit quality.

The final rules may also incent global network firms to increase accountability for all of the firms in their networks. The audit process for many multinational companies currently depends on the affiliated firms within a global network to audit company subsidiaries in their respective countries. This introduces vulnerabilities to the audit if quality varies across the network. To counter this risk, the global network firm may be further incented to increase its efforts to maintain uniform quality control standards and accountability across the global network.[105] The global network firm may also improve its monitoring of other audit participants to ensure audit quality as well. This increased accountability of the other accounting firms that participated in the audit to the accounting firm signing the auditor's report could improve audit quality.

For principal auditors that are not part of a global network, disclosures regarding other accounting firms participating in the audit could provide an additional incentive for the principal auditor to choose firms that have a good reputation for quality.

2. *The Costs and Other Possible Consequences of Disclosure*

Over the course of the rulemaking, the Board was mindful of concerns voiced by commenters about potential compliance and other costs associated with public disclosure. In particular, many commenters on the 2013 Release argued that naming the engagement partner and other audit participants in the auditor's report, as contemplated by the 2013 Release, may create both legal and practical issues under the federal securities laws and therefore increase the cost of performing audits compared to the costs in the current environment. Some commenters suggested that an increase in costs would be passed on to companies through higher audit fees. Some

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[105] *See supra* 99.

commenters urged the Board to proceed with the new transparency requirements, if it determined to do so, by mandating disclosure in an amended PCAOB Form 2 or in a newly created PCAOB form. As discussed in Section III, some commenters suggested that disclosure on a form may not raise the same concerns about liability or consent requirements as disclosure in the auditor's report.

a. Direct Costs

Under the Form AP approach, the direct costs for auditors would include the costs of compiling information about the engagement partner and other participants in the audit and calculating the percentage of audit work completed by other participants in the audit. In general, costs should be lower for audits not involving other participants because the only required disclosure would be the engagement partner's name and Partner ID. Compliance with the Form AP approach will entail initial costs of implementation—which could include creating systems to assign and track Partner ID numbers and to gather the required information from each engagement team—and ongoing costs associated with aggregating the information and filling out and filing Form AP.

A number of commenters observed that administrative effort would be required to compile data for, prepare, and review the required disclosures, both initially and on an ongoing basis. Accounting firms that commented on this issue asserted that the administrative efforts and related costs would not be significant.

b. Indirect Costs and Possible Unintended Consequences

In addition to the direct costs, there may be indirect costs and unintended consequences associated with the disclosures under consideration, some of which could be more significant than the direct compliance costs.

i. *Differential Demand Based on Reputation*

The disclosures aim to provide investors and other financial statement users with additional information they can consider in relation to audit quality at the engagement level, as opposed to the accounting firm level. This may result in some degree of differentiation in stature and reputation of individual auditors who serve as engagement partners and in other accounting firms that participate in audits.

Currently, investors and other financial statement users use proxies for quality, such as accounting firm size and industry experience, to differentiate accounting firms.[106] Some commenters suggested that the new requirements could be detrimental to smaller and less well-known accounting firms, even when they perform audit work in accordance with PCAOB standards. Others raised concerns that public identification of the engagement partner could lead to a rating, or "star," system resulting in particular individuals and entities being in high demand, to the unfair disadvantage of other equally qualified engagement partners. It is also possible that engagement partners may be unfairly disadvantaged because of association with an adverse audit outcome, which could be particularly damaging to their professional development and future opportunities if it occurred at the outset of their career. Unwarranted attribution of an adverse audit outcome to an engagement partner could also adversely affect other public companies whose audits were led by the same engagement partner. While commenters did not raise similar concerns related to other accounting firms participating in audits, the implications of identification could be similar.

Differential demand based on reputation could be a cost of the disclosures under consideration to the extent the reputation (whether good or bad) was undeserved. It may be reasonable, however, to expect that financial markets would be discerning in considering information about the engagement partner and other accounting firms in the audit. As one commenter stated, "investors are accustomed to weighing a variety of factors when assessing performance. . . . This approach can be seen in the careful analysis investors and proxy advisors do when they are asked to withhold support from directors standing for election. There is no reason to believe they will do otherwise with respect to auditors."[107] Academic research also suggests that financial markets do not treat all restatements and going concern modifications equally. Instead, financial markets respond to the facts and circumstances related to an individual restatement or going concern modification.[108] The results from this research suggest that financial

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106 *See* DeAngelo, *Auditor Size and Audit Quality,* and Francis, *What Do We Know About Audit Quality?*

107 *See* Letter from Denise L. Nappier, State Treasurer, State of Connecticut, to the Office of the Secretary, PCAOB (Mar. 17, 2014), at 3.

108 Academic research documents differences in the market impact of restatements and going concern modifications based on the specific facts and circumstances of the events. *See, e.g.*, Susan Scholz, *The Changing Nature and Consequences of Public Company Financial Restatements 1997–2006*, *The Department of the Treasury* (Apr. 2008); and Krishnagopal Menon and David D. Williams, *Investor Reaction to Going Concern Audit Reports*, 85 The Accounting Review 2075 *passim* (2010).

markets may be similarly discerning when forming their opinion about an engagement partner or other participant in the audit.

ii. *Overauditing and Audit Fees*

Some commenters have suggested that the increased reputational risk associated with public disclosure may lead to instances of overauditing, in which the engagement team undertakes more procedures than they otherwise might have performed, which do not contribute to forming an opinion on the financial statements. It should be noted that the final rules are not performance standards and do not mandate the performance of additional audit procedures. However, it is possible that some auditors may perform additional procedures as a result of the requirements (for example, because they want to obtain a higher level of confidence in some areas). This could result in unnecessary costs and an inefficient utilization of resources, and might cause undue delays in financial reporting. If and to the extent there are increased costs for auditors as a result of the new rules, however, such costs may be passed on—in whole, in part, or not at all—to companies and their investors in the form of higher audit fees.[109] Further, increased procedures may also require additional time from the company's management to deal with such procedures.

While the possibility of overauditing cannot be eliminated, competitive pressures to reduce the costs of conducting the audit should provide counterincentives that mitigate that risk.

iii. *Other Changes in Behavior of Engagement Partners*

A recent study documents certain ways in which the disclosures could change the incentives of engagement partners resulting in changed behavior.[110] Under a purely theoretical model developed by Carcello and Santore that has not yet been empirically tested, potential reputation costs stemming from disclosure leads engagement partners

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109 The Board is aware of public reports that have analyzed historical and aggregate data on audit fees and which suggest that audit fees generally have remained stable in recent years, notwithstanding the fact that the Board and other auditing standard setters have issued new performance standards during that period. *See, e.g.*, Audit Analytics, *Audit Fees and Non-Audit Fees: A Twelve Year Trend* (Sept. 30, 2014). In its 2013 Release, the Board sought data that might provide information or insight into such costs. As noted previously, commenters did not provide data regarding the extent of such costs.

110 *See* Joseph V. Carcello and Rudy Santore, *Engagement Partner Identification: A Theoretical Analysis*, 29 Accounting Horizons 297 (2015).

to become more conservative and gather more evidence than the accounting firm finds to be optimal. Although the results of the study suggested that the disclosures lead to increased audit quality, the authors' analysis indicated that engagement partner identification likely leads to decreases in the welfare[111] of engagement partners and accounting firms. The authors argued that changes in the welfare of engagement partners and accounting firms may not be optimal within their theoretical analysis.

The Carcello and Santore analysis is limited since they do not explicitly analyze the effects of increased auditor conservatism and increased audit quality on investor utility. Therefore, their description of the "society" is missing a key participant, the investors. This limitation notwithstanding, they do note that increased conservatism at large accounting firms may actually be socially optimal as it could limit damages to market participants stemming from aggressive financial reporting at large issuers.

iv. *Disincentive to Perform Risky Audits*

Some commenters have suggested that engagement partners and other accounting firms participating in audits may avoid complex and/or risky audits because of the potential negative consequences of an adverse audit outcome. It is also possible that accounting firms could increase audit fees or adjust their client acceptance and retention policies because of heightened concerns about liability, including the cost of insurance, or reputational risks. This could enhance auditors' performance of their gatekeeper function to the extent that it increases auditors' reluctance to take on clients at a high risk of fraudulent or otherwise materially misstated financial statements. But it would impose a cost if firms or partners become so risk averse that companies that do not pose such risk cannot obtain well-performed audits. This could effectively compel certain particularly risky companies to use engagement partners or accounting firms with substandard reputations or, in extreme circumstances, lead them to cease SEC reporting. If investors are better able to evaluate the quality of audit work performed by engagement partners and other accounting firms participating in the audit, companies that engage accounting firms with a reputation for substandard quality may experience an increased cost of capital.

v. *Mismatch of Skills*

Some commenters suggested that reputational concerns may lead audit committees not to select qualified engagement partners associated with prior

[111] The term "welfare" can be thought of as overall well-being. In economic theory, welfare typically refers to the prosperity and living standards of individuals or groups. Some of the typical factors that are accounted for in welfare functions (or utility functions) include: compensation, leisure, effort, reputation, et cetera.

restatements and to select a perceived "star" partner. It is, therefore, possible that, in some instances, high-demand auditors might be engaged when other auditors whose skills may be more relevant for a particular engagement are not selected. This could result in decreased audit quality. However, accounting firms have incentives to staff engagements appropriately, and high-demand engagement partners would also be incented to avoid performing audits for which they are not qualified in order to maintain that status or to mitigate any skill mismatch and maintain or enhance their reputation by consulting with others within their firm as necessary to ensure audit quality.

The ability to identify partners and other accounting firms involved in specific engagements could also facilitate the intentional selection of auditors with a reputation for substandard quality. Companies may do this for a variety of reasons, including the potential for lower audit fees or to identify auditors who are less likely to challenge management's assertions.

vi. *Possible Changes in Competitive Dynamics*

Differentiation in stature and reputation of individual auditors who serve as engagement partners, and in other accounting firms that participate in audits, could have a number of competitive effects. One commenter suggested that transparency could create a permanent structural bias against smaller, less-known firms and partners as audit committees may be reluctant to engage firms or select partners that are not well-established or well-known. As described in Section IV.A, it appears that the disclosures under consideration could promote increased competition based on factors other than general firm reputation. In particular, if investors are better able to assess variations in audit quality, any resultant financial market effects should incent accounting firms to increase the extent to which they compete based on audit quality.

Moreover, the disclosures could result in changes to the market dynamics for the services of engagement partners and other accounting firms participating in audits. The ability to differentiate among engagement partners and among other accounting firms participating in audits could change external perceptions of particular partners and accounting firms, which may affect the demand for their services.

It should be noted, however, that a marked increase in the mobility of engagement partners and other accounting firms participating in audits seems unlikely due to high switching costs and contractual limitations. For example, partnership agreements, noncompete agreements, and compensation and retirement arrangements may affect partners' incentives and contractual ability to change firms. In addition, the costs to an issuer of replacing the global audit team and explaining the decision to change accounting firms to the market may affect companies' incentives to follow an engagement partner to a new firm. As a result, engagement partners may be reluctant to or contractually precluded from changing accounting firms, and those who elect to change firms may be unable to bring their clients with them. Additionally, the five-year partner rotation requirement would preclude an engagement partner from serving a company for more than five years, even if the engagement partner switched accounting firms.[112]

vii. *Potential Liability Consequences*

The Board believes that disclosure on Form AP appropriately addresses concerns raised by commenters about liability. As commenters suggested, disclosure on Form AP should not raise potential liability concerns under Section 11 of the Securities Act or trigger the consent requirement of Section 7 of that Act because the engagement partner and other accounting firms would not be named in a registration statement or in any document incorporated by reference into one.[113] While the Board recognize that commenters expressed mixed views on the potential for liability under Exchange Act Section 10(b) and Rule 10b-5 and the ultimate resolution of Section 10(b) liability is outside of its control, the Board nevertheless does not believe any such risks warrant not proceeding with the Form AP approach.

C. Alternatives Considered

After considering these factors and public comments, the Board is adopting new rules and amendments to its standards that require the names of the engagement partner and certain other audit participants to be disclosed in a newly created PCAOB form, Form AP. Commenters have indicated that disclosure in Form AP could produce the intended benefits of transparency while addressing concerns related to auditor liability.

As described below, the Board has considered a number of alternative approaches to achieve the potential benefits of enhanced disclosure.

1. *Alternatives Considered Previously*

Over the past several years, the Board has considered a number of alternative approaches to the issue of transparency. Initially, the Board considered whether an approach short of rulemaking would be a less costly means of achieving the desired end. The Board's usual vehicles for informal guidance—such as staff audit practice

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112 Rule 2-01(c)(6) of Regulation S-X, 17 CFR 210.2-01(c)(6); *see also* Section 203 of the Sarbanes-Oxley Act.

113 While the requirement to file Form AP is triggered by the issuance of an auditor's report, the form would not automatically be incorporated by reference into or otherwise made part of the auditor's report.

alerts, answers to frequently asked questions, or reports under PCAOB Rule 4010, *Board Public Reports*—did not seem suitable. U.S. accounting firms have not voluntarily disclosed information about engagement partners. Also, even if some auditors disclosed more information under a voluntary regime, practices among auditors likely would vary widely. That would defeat one of the Board's goals of achieving widespread and consistent disclosures about the auditors that carry out PCAOB audits. Thus, the Board did not pursue an informal or voluntary approach.

In the 2009 Release, the Board considered a requirement for the engagement partner to sign the auditor's report in his or her own name in addition to the name of the accounting firm. A number of commenters supported and continue to support the signature requirement. However, many other commenters opposed it, mainly because including the signature in the auditor's report, in their view, would appear to minimize the role of the accounting firm in the audit and could increase the engagement partner's liability. Some commenters believed that this alternative would increase both transparency and the engagement partner's sense of accountability. Other commenters believed that engagement partners already have sufficient incentives to have a strong sense of accountability and that signing their own name on the audit opinion would not affect that.

In the 2011 Release, in addition to the requirement to disclose the name of the engagement partner in the auditor's report, the Board proposed to add to Form 2, the annual report, a requirement to disclose the name of the engagement partner for each audit required to be reported on the form. As originally proposed, disclosure on Form 2 would supplement more timely disclosures in the auditor's report by providing a convenient mechanism to retrieve information about all of a firm's engagement partners for all of its audits. The 2011 Release also proposed to require disclosure about other participants in the most recent period's audit in the auditor's report.

The Board also considered only requiring disclosure in Form 2. There are, however, a number of disadvantages to a Form 2-only approach, as discussed in the 2013 Release. It would delay the disclosure of information useful to investors and other financial statement users from 3 to 15 months.[114] It also would make the information more difficult to find by investors interested only in the name of the engagement partner for a particular audit, rather than an aggregation of all of the firm's engagement partners for a given year, because they would have to search for it in the midst of unrelated information in Form 2.

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[114] Form 2 must be filed no later than June 30 of each year—according to PCAOB Rule 2201, *Time for Filing of Annual Report*—and covers the preceding 12-month period from April 1 to March 31; *see* Form 2, General Instruction 4.

Some commenters on both the 2011 Release and 2013 Release suggested that the names of the engagement partner and the other participants in the audit should be included, if they were to be disclosed at all, not in the auditor's report but on an existing or newly created PCAOB form only. This would make the information publicly available, while responding to concerns expressed by commenters related to liability and related practical issues. Some commenters on the 2013 Release also suggested that these disclosures would be more appropriately made in the company's audit committee report.

In considering commenters' views, the Board also considered providing auditors the option of making disclosure either in the auditor's report or on a newly created PCAOB form. This alternative would have had the advantage of allowing auditors to decide how to comply with the disclosure requirements based on their particular circumstances, may have imposed lower compliance costs in some instances compared to mandatory form filing or mandatory auditor's report disclosure, and may have resulted in more disclosures in the auditor's report than a mandatory form because some auditors may have preferred to avoid the cost of filing the form by disclosing the information in the auditor's report. However, such an approach would have permitted disclosures in multiple locations, which could have caused confusion and increased search costs compared to either auditor's report disclosure or a mandatory form.

2. Disclosure in the Auditor's Report

Under the alternative proposed in the 2013 Release, auditors would have been required to disclose the name of the engagement partner and certain other participants in the audit in the auditor's report. This approach has certain benefits to market participants related to timing and visibility of the disclosures. For example, mandated disclosure in the auditor's report would reduce search costs for market participants in some instances. The required information would be disclosed in the primary vehicle by which the auditor communicates with investors and where other information about the audit is already found, and would be available immediately upon filing with the SEC of a document containing the auditor's report. However, market participants may incur costs to aggregate the information disclosed in separate auditors' reports.

Some commenters indicated that, compared to disclosure on Form AP, disclosing the information in the auditor's report may have an incrementally larger effect on the sense of accountability of identified participants in the audit because, for example, the engagement partner would be involved in the preparation of the auditor's report, but may not be involved in the preparation of the form. As discussed above, increased auditor accountability could have both positive and, potentially, some negative effects on the audit.

Mandating disclosure of the name of the engagement partner in the auditor's report would also create consistency between PCAOB auditing standards and requirements of other global standard setters regarding engagement partner disclosure.[115] For example, 16 out of the 20 countries with the largest market capitalization, including 7 E.U. member states, already require disclosure of the name of the engagement partner in the auditor's report.[116] However, it should be noted that baseline conditions, including those regarding auditor liability, may differ among these jurisdictions.

As previously discussed, disclosure in the auditor's report could trigger the consent requirement of Section 7 and subject the identified parties to potential liability under Section 11 of the Securities Act. As a result, there could be additional indirect costs to engagement partners and other accounting firms participating in audits associated with defense of the litigation.

3. *Disclosure on a New PCAOB Form*

Under the final rules adopted by the Board, firms are be required to disclose the name of the engagement partner and certain other accounting firms that participated in the audit in a separate PCAOB form to be filed by the 35th day after the date the auditor's report is first included in a document filed with the SEC, with a shorter deadline of 10 days for initial public offerings.

The approach described in the 2015 Supplemental Request would allow auditors to decide whether to also provide disclosure in the auditor's report taking into account, for example, any costs associated with obtaining consents pursuant to the Securities Act and the potential for liability stemming from disclosure in the auditor's report. Although many auditors may prefer to avoid the potential legal and practical issues

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115 In 2014, the IAASB adopted ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, which generally requires disclosure of the name of the engagement partner in the auditor's report. Following this adoption, disclosure of the engagement partner's name in the auditor's report of a listed entity will become the norm in those jurisdictions that have adopted the ISAs as adopted by the IAASB. *See also* 2013 Release for further discussion of the requirements regarding engagement partner disclosure in other jurisdictions.

116 Out of the 20 countries with the largest market capitalization (based on data obtained from the World Bank, World Development Indicators), the four that currently do not require the disclosure of the name of the engagement partner are the United States, Canada, Republic of Korea, and Hong Kong. The 16 countries that currently require disclosure of the name of the engagement partner are Japan, United Kingdom, France, Germany, Australia, India, Brazil, China, Switzerland, Spain, Russian Federation, the Netherlands, South Africa, Sweden, Mexico, and Italy.

associated with disclosure in the auditor's report, some auditors may choose to also make the required disclosures in the auditor's report. Financial statement users could interpret an auditor's willingness to be personally associated with the audit in the auditor's report as a signal of audit quality or, more generally, as a means of differentiating among auditors.[117]

Requiring disclosure in a separate PCAOB form may decrease the chances that investors and other financial statement users would seek out the information. While disclosure in the auditor's report would make information available on the date of SEC filing of the document containing the auditor's report, disclosure on Form AP could occur up to 35 days later and information would only be included in the auditor's report when the auditor also chose to disclose in the auditor's report. Regardless of where it is disclosed, investors should be able to consider the information in developing their investment strategies.[118]

D. Applicability to Brokers and Dealers under Exchange Act Rule 17a-5

For a discussion of the economic considerations relevant to the application of the final rules to audits of brokers and dealers, see Section VI.

V. Considerations for Audits of Emerging Growth Companies

Pursuant to Section 104 of the Jumpstart Our Business Startups ("JOBS") Act, any rules adopted by the Board subsequent to April 5, 2012, do not apply to the audits of emerging growth companies ("EGCs") (as defined in Section 3(a)(80) of the Exchange Act) unless the SEC "determines that the application of such additional

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[117] Changes to the format of the auditor's report in the United Kingdom may have provided auditors with a mechanism to distinguish themselves from their peers. Some filings suggest that some auditors may be using the new format to showcase the rigor and quality of their audit work. *See* Citi Research, *New UK Auditor's Reports Update* (Sept. 3, 2014). A copy of the report can be requested at www.citivelocity.com.

[118] There is an extensive body of academic literature demonstrating that financial markets are able to incorporate information into securities prices. Because securities prices can be viewed as public goods, investors are able to learn important information about a company by looking at the prices of its securities. *See*, *e.g.*, Eugene F. Fama, *Efficient Capital Markets: A Review of Theory and Empirical Work*, 25 The Journal of Finance 383 (1970); Sanford Grossman, *Further Results on the Informational Efficiency of Competitive Stock Markets*, 18 Journal of Economic Theory 81 (1978); John C. Coffee, Jr., *Market Failure and the Economic Case for a Mandatory Disclosure System*, 70 Virginia Law Review 717 (1984); and Verrecchia, *Essays on Disclosure*.

requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation."[119] As a result of the JOBS Act, the rules and related amendments to PCAOB standards the Board is adopting are subject to a separate determination by the SEC regarding their applicability to audits of EGCs.

The 2015 Supplemental Request as well as the 2013 Release sought comment on the applicability of the proposed disclosure requirements to the audits of EGCs. Commenters generally supported requiring the same disclosures for audits of EGCs on the basis that EGCs have the same characteristics as other issuers and that the same benefits would be applicable to EGCs.

The data on EGCs outlined in Appendix 2, "Characteristics of Self-Identified EGCs," remains consistent with the data discussed in the 2013 Release, although the number of EGCs has nearly doubled since the issuance of that release. A majority of EGCs continue to be smaller public companies that are generally new to the SEC reporting process. Overall, there is less information available in the market about smaller and newer companies than there is about larger and more established companies. The communication of the name of the engagement partner and information about other accounting firms in the audit could assist the market in assessing some risks associated with the audit and in valuing securities, which could make capital allocation more efficient. Disclosures about audits of EGCs could produce these effects no less than disclosures about audits of other companies. Because there is generally less information available to investors about EGCs, additional disclosures about audits of EGCs may be of greater benefit to investors in EGCs than to investors in established issuers with a longer reporting history.

As noted in Appendix 2, some EGCs operate in geographic segments that are outside the country or region of the accounting firm issuing the auditor's report, which may suggest involvement of participants in the audit other than the accounting firm issuing the auditor's report. While a smaller percentage of EGCs report such sales and assets than the companies in the Russell 3000 Index, for those EGCs that do, the amounts represent a larger portion of total sales and assets. The percentage of EGCs reporting segment sales (15%) and assets (17%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is smaller as compared to companies in the Russell 3000 Index (51% and 42%, respectively). However, for these EGCs, the average percentage of reported segment sales (58%)

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[119] *See* Jumpstart Our Business Startups ("JOBS") Act, Pub. L. No. 112-106 (Apr. 5, 2012). *See also* Section 103(a)(3)(C) of the Sarbanes-Oxley Act, (15 U.S.C. 7213(a)(3)), as added by Section 104 of the JOBS Act.

and assets (73%) in geographic areas outside the country or region of the accounting firm issuing the auditor's report is significantly higher than the analogous average segment sales (40%) and assets (35%) reported by companies in the Russell 3000 Index. Therefore, providing the disclosures regarding other accounting firms in the audit may be as relevant, or more relevant, to investors in EGCs and other financial statement users as it would be to investors in larger and more established companies.

One commenter asserted that costs to collect data about other participants in the audit will likely be more significant and probably more burdensome for auditors of EGCs than those of other issuers. Based on the characteristics of EGCs it is unlikely that the cost of collecting data will be disproportionately high for EGCs as a group because the percentage of EGCs that operate outside the country or region of the accounting firm issuing the auditor's report appears to be relatively low compared to companies in the Russell 3000 Index. Although for those EGCs that do, the percentage of sales and assets that may be subject to audit by other participants could be greater.

The costs associated with the final rules, which are discussed in Section IV, are equally applicable to all companies, including EGCs. To the extent compliance costs do not vary with the size of the company, they may have a disproportionately greater impact on audits of smaller companies, including audits of smaller EGCs. As previously noted, however, the Board does not believe that direct costs for auditors to comply with the final rule will be significant. Such costs would not, in any case, be borne by companies, including EGCs, except to the extent they are passed on in the form of higher audit fees.

As noted in Section IV, the Board was mindful of concerns voiced by commenters about compliance and other costs. The final rule responds to those concerns by requiring disclosure on Form AP, which should not raise the same concerns about potential liability or consent requirements as disclosure in the auditor's report.

As noted in Appendix 2, approximately 3% of EGCs were audited by firms having only one certified public accountant whose full name is included in the firm's name (for example, sole proprietor). For those EGCs, the name of the audit engagement partner is already disclosed through the required signature of the firm on the auditor's report. No companies in the Russell 3000 Index are audited by such firms.

The Board is providing this analysis and the information set forth in Appendix 2 to assist the SEC in its consideration of whether it is "necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation," to apply the standard and amendments to audits of EGCs. This information includes data and analysis of EGCs identified by the Board's staff from public sources.

The final rules will provide investors and other financial statement users with improved transparency about those who conduct audits, adding more specific data points to the mix of information that can be used to make decisions about audit quality and evaluate the credibility of financial reporting. The information will also allow investors and other financial statement users to evaluate the reputations of engagement partners and other accounting firms, which should have an effect on their sense of accountability.

For the reasons explained above, the Board believes that the final rules are in the public interest and, after considering the protection of investors and the promotion of efficiency, competition, and capital formation, recommends that the final rules should apply to audits of EGCs. Accordingly, the Board recommends that the Commission determine that it is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation, to apply the final rules to audits of EGCs. The Board stands ready to assist the Commission in considering any comments the Commission receives on these matters during the Commission's public comment process.

VI. Applicability to Audits of Brokers and Dealers and Employee Stock Purchase Plans

A. Audit of Brokers and Dealers under Exchange Act Rule 17a-5

Pursuant to Exchange Act Rule 17a-5, brokers and dealers are generally required to file annual reports with the SEC and other regulators.[120] The annual report includes a financial report, either a compliance report or exemption report, and reports by the auditor covering the financial report and the compliance report or exemption report. The annual report is public, except that, if the statement of financial condition in the financial report is bound separately from the balance of the annual report, the balance of the annual report is deemed confidential and nonpublic.[121] Therefore, in situations in which the broker or dealer binds the statement of financial condition separately from the balance of the annual report, the auditor generally would issue two separate auditor's reports that would have different content: (1) an auditor's report on the statement of financial condition that would be available to the public and (2) an auditor's report on the complete annual report that, except as provided in paragraph

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[120] *See* Exchange Act Rule 17a-5, 17 CFR 240.17a-5.

[121] *See* Exchange Act Rule 17a-5(e)(3), 17 CFR 240.17a-5(e)(3).

(c)(2)(iv) of Exchange Act Rule 17a-5, would be confidential and not available to the public.[122]

As discussed in the 2013 Release, ownership of brokers and dealers is primarily private, with individual owners generally being part of the management team. The 2015 Supplemental Request sought comment about whether Form AP posed specific issues with respect to brokers and dealers. Some commenters asserted that the disclosure requirements should apply to all audits conducted under PCAOB standards. However, others asserted that the value of the disclosures for brokers and dealers would be significantly limited because of the closely held nature of brokers and dealers. These commenters suggested that the engagement partner and other participants in the audit would be known to the management team, who are the owners in many instances.

While economic theory suggests that there are benefits resulting from enhanced transparency, commenters suggested that the benefits may be relatively less for brokers and dealers. There is likely a lesser degree of information asymmetry between owners and management for entities that are mostly private, closely-held, and small. However, information regarding the auditor may benefit those who are not part of management of the broker or dealer, such as customers. Although these benefits should be considered when determining whether to apply the new rules to brokers and dealers, they must be assessed relative to the potential costs of the required disclosures, which could be disproportionately high for smaller accounting firms that audit brokers and dealers. Overall, it appears likely that the net benefit of the required disclosures would be less for brokers and dealers than for issuers.

Accordingly, at this time, the Board is not extending the Form AP filing requirements to brokers and dealers.[123] The Form AP filing requirements are therefore limited to issuer audits. As the PCAOB and registered public accounting firms gain experience in filing and administering Form AP, and as more information is gathered on broker and dealer audits through the PCAOB's inspections and other oversight functions, the Board will continue to consider whether to make the Form AP requirement applicable to broker and dealer audits and could revisit its decision to limit the Form AP filing requirements to issuer audits.

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[122] *See also* Exchange Act Rule 17a-5(c)(2), 17 CFR 240.17a-5(c)(2), regarding audited statements required to be provided to customers.

[123] If a broker or dealer were an issuer required to file audited financial statements under Section 13 or 15(d) of the Exchange Act, the requirements would apply.

B. Audits of Employee Stock Purchase Plans

One commenter on the 2013 Release recommended that the reproposed amendments not apply to the audits of employee stock purchase, savings, and similar plans that file annual reports on Form 11-K. This commenter did not believe that disclosure of the name of the engagement partner or information about other participants in the audit would be meaningful for participants in an employee benefit plan that is subject to PCAOB auditing standards.

The Board believes similar transparency and accountability rationales apply to employee stock purchase, savings and similar plans that file annual reports on Form 11-K. For example, disclosing the name of the engagement partner and other accounting firms that participated in the audit on Form AP could increase audit quality by increasing auditors' sense of accountability. In the Board's view, increasing the audit quality in audits of employee stock purchase, savings and similar plans is important for the protection of employee benefit plan participants. Disclosure of the engagement partner's name for the audits of employee benefit plans will provide additional information about an engagement partner's experience for those engagement partners that also audit other issuers.

VII. <u>Effective Date</u>

The 2015 Supplemental Request suggested making the requirements effective for auditors' reports issued or reissued on or after June 30, 2016 or three months after approval by the SEC, whichever occurs later. Many commenters generally advocated a later effective date, although some suggested a phased approach, with disclosure of the engagement partner implemented first and disclosure of other participants delayed for six months to a year after that to provide time for firms to develop data gathering systems and processes. Commenters that suggested a phased approach said that since the engagement partner was already known by the firm, a June 30, 2016 effective date would be appropriate. Some commenters suggested not linking the effective date to a calendar year-end to allow firms to test and implement new systems at a less busy time of year.

After considering comments, the Board has chosen a phased effective date. If approved by the Commission, the new rules of the Board and amendments to auditing standards will take effect as set forth below:

- Engagement partner: auditors' reports issued on or after January 31, 2017, or three months after SEC approval of the final rules, whichever is later
- Other accounting firms: auditors' reports issued on or after June 30, 2017.

A phased effective date will provide investors with the engagement partner's name as soon as reasonably practicable. Providing a later effective date for the other accounting firms' disclosure allows firms time to develop a methodology to gather information regarding the other accounting firms' participation.

On the 15th day of December, in the year 2015, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 15, 2015

APPENDIX 1

Rules of the Board and Amendments to Auditing Standards

The Board adopts: (i) new Rules 3210 and 3211; (ii) new Form AP; and (iii) amendments to AS 3101 (currently AU sec. 508), *Reports on Audited Financial Statements*, and AS 1205 (currently AU sec. 543), *Part of the Audit Performed by Other Independent Auditors*.

The text of these rules, form, and amendments is set forth below.

Rules of the Board to Require Disclosure of Certain Participants in the Audit on Form AP

The rules below are added to Section 3 of the Rules of the Board.

RULES OF THE BOARD

* * * * *

Section 3. Auditing and Related Professional Practice Standards

* * * * *

Rule 3210. Amendments

The provisions of Rule 2205 concerning amendments shall apply to any Form AP filed pursuant to Rule 3211 as if the submission were a report on Form 3.

Rule 3211. Auditor Reporting of Certain Audit Participants

(a) For each audit report it issues for an issuer, a registered public accounting firm must file with the Board a report on Form AP in accordance with the instructions to that form.

Note 1: A Form AP filing is not required for an audit report of a registered public accounting firm that is referred to by the principal auditor in accordance with AS 1205, *Part of the Audit Performed by Other Independent Auditors*.

Note 2: Rule 3211 requires the filing of a report on Form AP regarding an audit report only the first time the audit report is included in a document filed with the Commission. Subsequent inclusion of precisely the same audit report in other documents filed with the Commission does not give rise to a requirement to file another Form AP. In the event of any change to the audit report, including any change in the dating of the report, Rule

3211 requires the filing of a new Form AP the first time the revised audit report is included in a document filed with the Commission.

(b) Form AP is deemed to be timely filed if—

1. The form is filed by the 35th day after the date the audit report is first included in a document filed with the Commission; *provided*, *however*, that

2. If such document is a registration statement under the Securities Act, the form is filed by the 10th day after the date the audit report is first included in a document filed with the Commission.

(c) Unless directed otherwise by the Board, a registered public accounting firm must file such report electronically with the Board through the Board's Web-based system.

(d) Form AP shall be deemed to be filed on the date that the registered public accounting firm submits a Form AP in accordance with this rule that includes the certification in Part VI of Form AP.

FORM AP—AUDITOR REPORTING OF CERTAIN AUDIT PARTICIPANTS

GENERAL INSTRUCTIONS

1. Submission of this Report. Effective **[insert effective date of Rule 3211],** a *registered public accounting firm* must use this Form to file with the *Board* reports required by Rule 3211 and to file any amendments to such reports. Unless otherwise directed by the *Board*, the *registered public accounting firm* must file this Form electronically with the *Board* through the *Board's* Web-based system.

2. Defined Terms. The definitions in the *Board's rules* apply to this Form. Italicized terms in the instructions to this Form are defined in the *Board's rules*. In addition, as used in the instructions to this Form, the term "the Firm" means the *registered public accounting firm* that is filing this Form with the *Board*; and the term, "other accounting firm" means (i) a *registered public accounting firm* other than the Firm; or (ii) any other *person* or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework.

3. When this Report is Considered Filed. A report on Form AP is considered filed on the date the Firm submits to the *Board* a Form AP in accordance with Rule 3211 that includes the certification required by Part VI of Form AP.

Note 1: A Form AP filing is not required for an *audit report* of a *registered public accounting firm* that is referred to by the Firm in accordance with AS 1205, *Part of the Audit Performed by Other Independent Auditors*.

Note 2: Rule 3211 requires the filing of a report on Form AP regarding an *audit report* only the first time the *audit report* is included in a document filed with the *Commission*. Subsequent inclusion of precisely the same *audit report* in other documents filed with the *Commission* does not give rise to a requirement to file another Form AP. In the event of any change to the *audit report*, including any change in the dating of the report, Rule 3211 requires the filing of a new Form AP the first time the revised *audit report* is included in a document filed with the *Commission*.

4. Amendments to this Report. Amendments to Form AP are required to correct information that was incorrect at the time the Form was filed or to provide information that was omitted from the Form and was required to be provided at the time the Form was filed. When filing a Form AP to amend an earlier filed Form AP, the Firm must supply not only the corrected or supplemental information, but it must include in the amended Form AP all information and certifications that were required to be included in the original Form AP. The Firm may access the originally filed Form AP through the *Board*'s Web-based system and make the appropriate amendments without needing to re-enter all other information.

   Note: The *Board* will designate an amendment to a report on Form AP as a report on "Form AP/A."

5. *Rules* Governing this Report. In addition to these instructions, Rules 3210 and 3211 govern this Form. Read these *rules* and the instructions carefully before completing this Form.

6. Language. Information submitted as part of this Form must be in the English language.

7. Partner ID. For purposes of responding to Item 3.1.a.6, the Firm must assign each engagement partner that is responsible for the Firm's issuance of an issuer audit report a 10-digit Partner ID number. The Firm must assign a unique Partner ID number to each such engagement partner and must use the same Partner ID for that engagement partner in every Form AP filed by the Firm that identifies that engagement partner. The Partner ID must begin with the Firm ID—a unique five-digit identifier based on the number assigned to the Firm by the PCAOB—and be followed by a unique series of five digits assigned by the Firm. When an engagement partner is no longer associated with the Firm, his/her Partner ID must be retired and not reassigned.

If the engagement partner was previously associated with a different *registered public accounting firm* and had a Partner ID at that previous firm, the Firm must assign a new Partner ID in accordance with the instructions above. The new Firm must report, in Item 3.1.a.6, the new Partner ID and all Partner IDs previously associated with the engagement partner.

> Note: The Firm ID can be found by viewing the firm's summary page on the PCAOB website, where it is displayed parenthetically next to the name of the firm—firm name (XXXXX). For firms that have PCAOB-assigned identifiers with fewer than 5 digits, leading zeroes should be added before the number to make 5 digits, e.g., 99 should be presented as 00099.

PART I—IDENTITY OF THE FIRM

In Part I, the Firm should provide information that is current as of the date of the certification in Part VI.

Item 1.1 Name of the Firm

a. State the legal name of the Firm.

b. If different than its legal name, state the name under which the Firm issued this *audit report*.

PART II—AMENDMENTS

Item 2.1 Amendments

If this is an amendment to a report previously filed with the *Board*:

a. Indicate, by checking the box corresponding to this item, that this is an amendment.

b. Identify the specific Part or Item number(s) in this Form (other than this Item 2.1) as to which the Firm's response has changed from that provided in the most recent Form AP or amended Form AP filed by the Firm with respect to an *audit report* related to the *issuer* named in Item 3.1.a.1.

PART III—*AUDIT* CLIENT AND *AUDIT REPORT*

Item 3.1 *Audit Report*

a. Provide the following information concerning the *issuer* for which the Firm issued the *audit report* –

1. Indicate, by checking the box corresponding to this item, whether the *audit* client is an *issuer* other than an employee benefit plan or investment company; an employee benefit plan; or an investment company;

2. The Central Index Key (CIK) number, if any, and Series identifier, if any;

3. The name of the *issuer* whose financial statements were audited;

4. The date of the *audit report*;

5. The end date of the most recent period's financial statements identified in the *audit report*;

6. The name (that is, first and last name, all middle names and suffix, if any) of the engagement partner on the most recent period's *audit*, his/her Partner ID, and any other Partner IDs by which he/she has been identified on a Form AP filed by a different registered public accounting firm or on a Form AP filed by the Firm at the time when it had a different Firm ID; and

7. The city and state (or, if outside the United States, city and country) of the office of the Firm issuing the *audit report*.

b. Indicate, by checking the box corresponding to this item, if the most recent period and one or more other periods presented in the financial statements identified in Item 3.1.a.5 were audited during a single *audit* engagement.

c. In the event of an affirmative response to Item 3.1.b, indicate the periods audited during the single *audit* engagement for which the individual named in Item 3.1.a.6 served as engagement partner (for example, as of December 31, 20XX and 20X1 and for the two years ended December 31, 20XX).

d. Indicate, by checking the box corresponding to this item, if the *audit report* was dual-dated pursuant to AS 3110, *Dating of the Independent Auditor's Report*.

e. In the event of an affirmative response to Item 3.1.d, indicate the date of the dual-dated information and if different from the engagement partner named in Item 3.1.a.6, information about the engagement partner who audited the information within the financial statements to which the dual-dated opinion applies in the same detail as required by Item 3.1.a.6.

Note: In responding to Item 3.1.e, the Firm should provide each date of any dual-dated *audit report*.

Item 3.2 *Other Accounting Firms*

Indicate, by checking the box corresponding to this item, if one or more *other accounting firms* participated in the Firm's *audit*. If this item is checked, complete Part IV. By checking this box, the Firm is stating that it is responsible for the *audits* or *audit* procedures performed by the *other accounting firm(s)* identified in Part IV and has supervised or performed procedures to assume responsibility for their work in accordance with PCAOB standards.

Note: For purposes of Item 3.2, an *other accounting firm* participated in the Firm's audit if (1) the Firm assumes responsibility for the work and report of the *other accounting firm* as described in paragraphs .03-.05 of AS 1205, *Part of the Audit Performed by Other Independent Auditors*, or (2) the *other accounting firm* or any of its principals or professional employees was subject to supervision under AS 1201, *Supervision of the Audit Engagement*.

Item 3.3 Divided Responsibility

Indicate, by checking the box corresponding to this item, if the Firm divided responsibility for the *audit* in accordance with AS 1205, *Part of the Audit Performed by Other Independent Auditors*, with one or more other *public accounting firm*(*s*). If this item is checked, complete Part V.

PART IV—RESPONSIBILITY FOR THE *AUDIT* IS NOT DIVIDED

In responding to Part IV, total *audit* hours in the most recent period's *audit* should be comprised of hours attributable to: (1) the financial statement *audit*; (2) reviews pursuant to AS 4105, *Reviews of Interim Financial Information*; and (3) the *audit* of internal control over financial reporting pursuant to AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*. Excluded from disclosure and from total *audit* hours in the most recent period's *audit* are, respectively, the identity and hours incurred by: (1) the engagement quality reviewer; (2) the person who performed the review pursuant to SEC Practice Section 1000.45 Appendix K; (3) specialists engaged, not employed, by the Firm; (4) an accounting firm performing the audit of entities in which the issuer has an investment that is accounted for using the equity method; (5) internal auditors, other company personnel, or third parties working under the direction of management or the audit committee who provided direct assistance in the *audit* of internal control over financial reporting; and (6) internal auditors who provided direct assistance in the *audit* of the financial statements. Hours incurred in the *audit* by entities other than *other accounting firms* are included in the calculation of total *audit* hours and should be allocated among the Firm and the *other accounting firms* participating in the *audit* on the basis of which accounting firm commissioned and directed the applicable work.

Actual audit hours should be used if available. If actual audit hours are unavailable, the Firm may use a reasonable method to estimate the components of this calculation. The Firm should document in its files the method used to estimate hours when actual audit hours are unavailable and the computation of total audit hours on a basis consistent with AS 1215, *Audit Documentation*. Under AS 1215, the documentation should be in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand the computation of total audit hours and the method used to estimate hours when actual hours were unavailable.

In responding to Part IV, if the financial statements for the most recent period and one or more other periods covered by the *audit report* identified in Item 3.1.a.4 were audited during a single *audit* engagement (for example, in a reaudit of a prior period(s)), the calculation should be based on the percentage of *audit* hours attributed to such firms in relation to the total *audit* hours for the periods identified in Item 3.1.c.

Indicate, by checking the box, if the percentage of total *audit* hours will be presented within ranges in Part IV.

Item 4.1 *Other Accounting Firm(s)* Individually 5% or Greater of Total *Audit* Hours

a. State the legal name of *other accounting firms* and the extent of participation in the *audit*—as a single number or within the appropriate range of the percentage of hours, according to the following list—attributable to the *audits* or audit procedures performed by such accounting firm in relation to the total hours in the most recent period's *audit*.

90%-or-more of total *audit* hours;
80% to less than 90% of total *audit* hours;
70% to less than 80% of total *audit* hours;
60% to less than 70% of total *audit* hours;
50% to less than 60% of total *audit* hours;
40% to less than 50% of total *audit* hours;
30% to less than 40% of total *audit* hours;
20% to less than 30% of total *audit* hours;
10% to less than 20% of total *audit* hours; and
5% to less than 10% of total *audit* hours.

b. For each *other accounting firm* named, state the city and state (or, if outside the United States, city and country) of the headquarters' office and, if applicable, the *other accounting firm's* Firm ID.

Note 1: In responding to Items 4.1 and 4.2, the percentage of hours attributable to *other accounting firms* should be calculated individually for each firm. If the individual participation of one or more *other accounting firm(s)* is less than 5%, the Firm should complete Item 4.2.

Note 2: In responding to Item 4.1.b, the Firm ID represents a unique five-digit identifier for firms that have a publicly available PCAOB-assigned number.

Item 4.2 *Other Accounting Firm(s)* Individually Less Than 5% of Total *Audit* Hours

a. State the number of *other accounting firm(s)* individually representing less than 5% of total *audit* hours.

b. Indicate the aggregate percentage of participation of the *other accounting firm(s)* that individually represented less than 5% of total *audit* hours by filling in a single number or by selecting the appropriate range as follows:

90%-or-more of total *audit* hours;
80% to less than 90% of total *audit* hours;
70% to less than 80% of total *audit* hours;
60% to less than 70% of total *audit* hours;
50% to less than 60% of total *audit* hours;
40% to less than 50% of total *audit* hours;
30% to less than 40% of total *audit* hours;
20% to less than 30% of total *audit* hours;
10% to less than 20% of total *audit* hours;
5% to less than 10% of total *audit* hours; and
Less-than-5% of total *audit* hours.

PART V—RESPONSIBILITY FOR THE *AUDIT* IS DIVIDED

Item 5.1 Identity of the Other *Public Accounting Firm*(*s*) to which the Firm Makes Reference

a. Provide the following information concerning each other *public accounting firm* the Firm divided responsibility with in the *audit*—

1. State the legal name of the other *public accounting firm* and when applicable, the other *public accounting firm*'s Firm ID.

2. State the city and state (or, if outside the United States, city and country) of the office of the other *public accounting firm* that issued the other *audit report*.

3. State the magnitude of the portion of the financial statements audited by the other *public accounting firm*.

Note: In responding to Item 5.1.a.3, the Firm should state the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, as it is described in the *audit report* in accordance with AS 1205.

PART VI—CERTIFICATION OF THE FIRM

Item 6.1 Signature of Partner or Authorized Officer

This Form must be signed on behalf of the Firm by an authorized partner or officer of the Firm by typing the name of the signatory in the electronic submission. The signer must certify that:

a. The signer is authorized to sign this Form on behalf of the Firm;

b. The signer has reviewed this Form;

c. Based on the signer's knowledge, this Form does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading; and

d. Based on the signer's knowledge, the Firm has not failed to include in this Form any information that is required by the instructions to this Form.

The signature must be accompanied by the signer's title, the capacity in which the signer signed the Form, the date of signature, and the signer's business telephone number and business e-mail address.

* * * * *

Amendments to PCAOB Auditing Standards for Optional Disclosure of Certain Audit Participants in the Auditor's Report

The amendments below are adopted to PCAOB auditing standards.[1]

AS 3101 (currently AU sec. 508), *Reports on Audited Financial Statements*

AS 3101 (currently AU sec. 508), *Reports on Audited Financial Statements*, is amended as follows:

a. Paragraph .09A is added, as follows:

> The auditor may include in the auditor's report information regarding the engagement partner and/or other accounting firms participating in the audit that is required to be reported on PCAOB Form AP, *Auditor Reporting of Certain Audit Participants*. If the auditor decides to provide information about the engagement partner, other accounting firms participating in the audit, or both, the auditor must disclose the following:
>
> a. *Engagement partner*—the engagement partner's full name as required on Form AP; or
>
> b. *Other accounting firms participating in the audit*—
>
>   i. A statement that the auditor is responsible for the audits or audit procedures performed by the other public accounting firms and has supervised or performed procedures to assume

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[1] On March 31, 2015, the PCAOB adopted the reorganization of its auditing standards using a topical structure and a single, integrated numbering system. *See Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). On September 17, 2015, the U.S. Securities and Exchange Commission ("SEC") approved the PCAOB's adoption of the reorganization. *See* SEC, *Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules To Implement the Reorganization of PCAOB Auditing Standards and Related Changes to PCAOB Rules and Attestation, Quality Control, and Ethics and Independence Standards*, Exchange Act Release No. 34-75935 (Sept. 17, 2015), 80 FR 57263 (Sept. 22, 2015). The reorganized amendments will be effective as of December 31, 2016, and nothing precludes auditors and others from using and referencing the reorganized standards before the effective date. *See* PCAOB Release No. 2015-002 at 21.

responsibility for their work in accordance with PCAOB standards;

ii. *Other accounting firms individually contributing 5% or more of total audit hours*—for each firm, (1) the firm's legal name, (2) the city and state (or, if outside the United States, city and country) of headquarters' office, and (3) percentage of total audit hours as a single number or within an appropriate range, as is required to be reported on Form AP; and

iii. *Other accounting firms individually contributing less than 5% of total audit hours*—(1) the number of other accounting firms individually representing less than 5% of total audit hours and (2) the aggregate percentage of total audit hours of such firms as a single number or within an appropriate range, as is required to be reported on Form AP.

<u>AS 1205 (currently AU sec. 543), *Part of the Audit Performed by Other Independent Auditors*</u>

AS 1205 (currently AU sec. 543), *Part of the Audit Performed by Other Independent Auditors*, is amended as follows:

a. In paragraph .03, the following phrase is added to the end of the second sentence, ", except as provided in paragraph .04."

b. In paragraph .04, the last sentence is deleted and replaced with the following:

   If the principal auditor decides to take this position, the auditor may include information about the other auditor in the auditor's report pursuant to paragraph .09A of AS 3101, *Reports on Audited Financial Statements*, but otherwise should not state in its report that part of the audit was made by another auditor.

c. In paragraph .07:

   - The last sentence is deleted.
   - Footnote 3 is deleted.

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APPENDIX 2

Characteristics of Self-Identified EGCs

The PCAOB has been monitoring implementation of the Jumpstart Our Business Startups Act ("JOBS Act") in order to understand the characteristics of EGCs[1] and inform the Board's consideration of whether it should recommend that the SEC approve the application of the final rules to audits of EGCs. To assist the SEC, the Board is providing the following information regarding EGCs that it has compiled from public sources.[2]

As of May 15, 2015, based on the PCAOB's research, there were 1,972 SEC registrants that filed audited financial statements and identified themselves as EGCs in at least one public filing. Among the 1,972 EGCs, there were 171 that did not file audited financial statements within the 18 months preceding May 15, 2015.[3]

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[1] Pursuant to the JOBS Act, an EGC is defined in Section 3(a)(80) of the Exchange Act. In general terms, an issuer qualifies as an EGC if it has total annual gross revenue of less than $1 billion during its most recently completed fiscal year (and its first sale of common equity securities pursuant to an effective Securities Act of 1933 (the "Securities Act") registration statement did not occur on or before December 8, 2011). *See* JOBS Act Section 101(a), (b), and (d). Once an issuer is an EGC, the entity retains its EGC status until the earliest of: (i) the first year after it has total annual gross revenue of $1 billion or more (as indexed for inflation every five years by the SEC); (ii) the end of the fiscal year after the fifth anniversary of its first sale of common equity securities under an effective Securities Act registration statement; (iii) the date on which the company issues more than $1 billion in nonconvertible debt during the prior three year period; or (iv) the date on which it is deemed to be a "large accelerated filer" under the Exchange Act (generally, an entity that has been public for at least one year and has an equity float of at least $700 million).

[2] To obtain data regarding EGCs, the PCAOB's Office of Research and Analysis compiled data from Audit Analytics on self-identified EGCs and excluded companies that (i) have terminated their registration, (ii) had their registration revoked, or (iii) have withdrawn their registration statement prior to effectiveness and, in each case, have not subsequently filed audited financial statements. The PCAOB has not validated these entities' self-identification as EGCs. The information presented also does not include data for entities that have filed confidential registration statements and have not subsequently made a public filing.

[3] Approximately 28% of these 171 companies are blank check companies according to the Standard Industrial Classification ("SIC") code. This is the most common SIC code among the 171 companies; the next most common SIC code (5%) is

Characteristics of the remaining 1,801 companies that filed audited financial statements in the 18 months preceding May 15, 2015 are discussed below.

These companies operate in diverse industries. The five most common SIC codes applicable to these companies are: (i) pharmaceutical preparations; (ii) blank check companies; (iii) real estate investment trusts; (iv) prepackaged software services; and (v) business services.

The five SIC codes with the highest total assets as a percentage of the total assets of the population of EGCs are codes for: (i) real estate investment trusts; (ii) state commercial banks; (iii) crude petroleum or natural gas; (iv) national commercial banks; and (v) electric services. Total assets of EGCs in these five SIC codes represent approximately 46% of the total assets of the population of EGCs. EGCs in two of these five SIC codes (state commercial banks and national commercial banks) represent financial institutions, and the total assets for these two SIC codes represent approximately 17% of the total assets of the population of EGCs.

Approximately 13% of the EGCs identified themselves in registration statements and had not reported under the Exchange Act as of May 15, 2015. Approximately 74% of EGCs began reporting under the Exchange Act in 2012 or later. The remaining 13% of these companies have been reporting under the Exchange Act since 2011 or earlier. Accordingly, a majority of the companies that have identified themselves as EGCs have been reporting information under the securities laws since 2012.

Approximately 62% of the companies that have identified themselves as EGCs and filed an Exchange Act filing with information on smaller reporting company status indicated that they were smaller reporting companies.[4]

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that for metal mining (the remaining SIC codes each represent less than 5%). Approximately 84% of these 171 companies had an explanatory paragraph included in the last auditor's report filed with the SEC stating that there is substantial doubt about the company's ability to continue as a going concern. Approximately 7% of these 171 companies were audited by firms that are annually inspected by the PCAOB, 2% were audited by firms that are affiliates of annually inspected firms, 2% were audited by other foreign firms, and the remaining 89% were audited by domestic firms that are triennially inspected by the PCAOB.

[4] The SEC adopted its current smaller reporting company rules in *Smaller Reporting Company Regulatory Relief and Simplification*, Securities Act Release No. 8876 (Dec. 19, 2007). Generally, companies qualify to be smaller reporting companies and, therefore, have scaled disclosure requirements if they have less than $75 million in public equity float. Companies without a calculable public equity float will qualify if their

Approximately 54% of the companies that have identified themselves as EGCs provided a management report on internal control over financial reporting.[5] Of those companies that provided a management report, approximately 50% stated in the report that the company's internal control over financial reporting was not effective.[6]

The most recent audited financial statements filed as of May 15, 2015, for those companies that identified as EGCs indicated the following:

- The reported assets ranged from zero to approximately $12.9 billion. The average and median reported assets were approximately $227.4 million and $3.1 million, respectively.[7]

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revenues were below $50 million in the previous year. Scaled disclosure requirements generally reduce the compliance burden of smaller reporting companies compared to other issuers.

[5] The management report on internal control over financial reporting is required only in annual reports, starting with the second annual report filed by the company. *See* Instruction 1 to Item 308(a) of Regulation S-K. EGCs that have not yet filed at least one annual report are therefore not required to provide it.

[6] For purposes of comparison, the PCAOB compared the data compiled with respect to the population of companies that identified themselves as EGCs with companies listed in the Russell 3000 Index in order to compare the EGC population with the broader issuer population. The Russell 3000 Index was chosen for comparative purposes because it is intended to measure the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market (as indicated on the Russell website). To contrast, approximately 98% of the companies in the Russell 3000 Index provided a management report on internal control over financial reporting. Of those companies that provided a management report, approximately 5% stated in the report that the company's internal control over financial reporting was not effective.

[7] As noted in note 6, for purposes of comparison, the PCAOB compared the data compiled with respect to the population of companies that identified themselves as EGCs with companies listed in the Russell 3000 Index in order to compare the EGC population with the broader issuer population. The average and median reported assets of issuers in the Russell 3000 Index were approximately $13.2 billion and approximately $1.9 billion, respectively. The average and median reported revenue from the most recent audited financial statements filed as of May 15, 2015, of issuers in the Russell 3000 were approximately $4.9 billion and $812.9 million, respectively.

- The reported revenue ranged from zero to approximately $926.4 million. The average and median reported revenue were approximately $53.7 million and $48 thousand, respectively.

- Approximately 43% reported zero revenue in their financial statements.

- The average and median reported assets among companies that reported revenue greater than zero were approximately $382.3 million and $71.1 million, respectively. The average and median reported revenue among these companies that reported revenue greater than zero were approximately $94.0 million and $13.5 million, respectively.

- Approximately 50% had an explanatory paragraph included in the auditor's report on their most recent audited financial statements describing that there is substantial doubt about the company's ability to continue as a going concern.[8]

- Approximately 44% were audited by firms that are annually inspected by the PCAOB (that is, firms that have issued auditor's reports for more than 100 public company audit clients in a given year) or are affiliates of annually inspected firms. Approximately 56% were audited by triennially inspected firms (that is, firms that have issued auditor's reports for 100 or fewer public company audit clients in a given year) that are not affiliates of annually inspected firms.

- Approximately 3% were audited by firms: (1) whose names contain the full name of an individual that is in a leadership role at the firm and (2) have disclosed only one certified public accountant.[9]

- Approximately 15% and 17% of the EGCs reported segment sales and assets,[10] respectively, in geographic areas outside the country or region of

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[8] Less than 1% of companies in the Russell 3000 Index have an explanatory paragraph describing that there is substantial doubt about the company's ability to continue as a going concern.

[9] This data is based on firms' annual disclosures on PCAOB Form 2. No companies in the Russell 3000 Index were audited by such firms.

[10] *See* Financial Accounting Standards Board Accounting Standards Codification, Topic 280, *Segment Reporting*.

the accounting firm issuing the auditor's report.[11] For these EGCs, on average, 58% and 73% of the reported segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.[12]

[11] Approximately 51% and 41% of the population of companies in the Russell 3000 Index reported segment sales and assets, respectively, in geographic areas outside the country or region of the accounting firm issuing the auditor's report.

[12] For the population of companies in the Russell 3000 Index that reported segment sales or assets in geographic areas outside the country or region of the accounting firm issuing the auditor's report, approximately 40% and 35% of those segment sales and assets, respectively, were in geographic areas outside the country or region of the accounting firm issuing the auditor's report.