



September 27, 2011

Office of the Secretary
Public Company Accounting Oversight Board
166 K. Street, NW
Washington, D.C. 20006-2803

Re: Request for Public Comment on Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards and Notice of Roundtable (PCAOB Release No. 2011-003, June 21, 2011, Rulemaking Docket Matter No. 34)

Dear Members and Staff of the Public Company Accounting Oversight Board:

Thank you for providing the Aerospace Industries Association ("AIA") an opportunity to share our view on the Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards ("the Concept Release"), issued by the Public Company Accounting Oversight Board ("the Board") on June 21, 2011. AIA is the premier aerospace industry trade association representing the nation's major manufacturers of commercial, military and business products such as aircraft, helicopters, aircraft engines, missiles, spacecraft, and related components and equipment.

We are supportive of the Board's efforts to address the financial reporting concerns of investors and other users of financial statements, especially in light of the recent global financial crisis. We believe that improvements to financial reporting can best be achieved through clarifying changes to the audit report by the PCAOB coupled with continued targeted standard-setting by the Financial Accounting Standards Board ("FASB") and Securities and Exchange Commission ("SEC"). It would be most helpful to investors to clarify the purpose of an audit, the responsibilities of management, and the responsibilities of the auditor. Further, it would be useful to clarify the auditor's existing responsibility with respect to financial information presented outside of the financial statements and provide reference to PCAOB audit standards. Both FASB and the SEC have been responsive to investor needs since the financial crisis of 2008, as evidenced by, among other things, FASB requiring additional disclosures regarding the credit quality of financing receivables and the SEC requiring comprehensive disclosure of short-term borrowings.

We believe that additional, targeted standard-setting could promote greater transparency in disclosure for complex transactions. Furthermore, ongoing standard-setting projects at the FASB are focused on improving disclosures. For example, according to FASB, the desired result of its Disclosure Framework project is a "net reduction in disclosure volume and a net increase in the utility of the information disclosed." We understand that FASB is creating a decision process that will result in financial statement disclosures focused on matters that are most important to the users of a particular entity's financial statements. It is important for this project to be completed and implemented so that its impact on financial reporting can be determined.

In the following paragraphs, we provide additional feedback on the ideas presented in the Concept Release:

The form of the auditor's report should be limited to providing an opinion about whether the financial statements present fairly, in all material respects, the financial condition, results of operations, and cash flows of reporting companies in conformity with the applicable financial reporting framework. We would support changes to the audit report that would clarify the purpose of an audit, the responsibilities of management, and the responsibilities of the auditor. Additionally, we support changes that would clarify the auditor's existing responsibility with respect to financial information presented outside of the financial statements (e.g., AU sec. 550) and provide reference to PCAOB audit standards or other summary documents that provide additional information about public company audits and auditors (e.g., Center for Audit Quality's recently published *"In-Depth Guide to Public Company Auditing: The Financial Statement Audit"*).

Management's responsibility for the financial information of a company and the current segregation of responsibility among management, the audit committee and the auditor should be preserved. Management should be the original source of financial information about a company. Management of a company has a very deep knowledge and understanding of its industry, business strategy, and risk factors and their impact on current and future financial results. While an auditor learns about a company's accounting policies and procedures through an audit, their focus is on whether the financial statements are presented in conformity with prescribed accounting rules rather than the broader business risks (e.g. supply chain, environmental, operational, etc.) that can impact future financial results. A discussion of the company's financial information by the auditor could result in greater confusion for the investor and give the impression that the auditor is providing something other than an unqualified audit opinion. The issuance of an unqualified audit opinion should remain a statement to the investor that all material matters related to the audit have been resolved to the mutual satisfaction of management, the audit committee, and the auditor. Further analysis would be required to determine how an affirmative disclosure obligation might impact auditors' independence and objectivity. For example, might direct disclosure responsibilities, and the associated liability risk, impact the way auditors analyze corporate transactions?

We are concerned with the addition of an Auditor's Discussion and Analysis ("AD&A") supplement to the auditor's report for several reasons:

- First, we believe that a discussion of the company's financial information provided by the auditor could result in greater confusion for the investor and give the impression that the auditor is qualifying its audit opinion. As previously stated, the issuance of an unqualified opinion should be a signal to investors that all material items have been resolved and fairly presented in the financial statements.
- Second, investors are inundated with financial information in the form of audited financial statements and disclosures, Management Discussion and Analysis (MD&A), and Earnings Releases. We do not believe that the introduction of additional information through an AD&A will help investors better understand the company's financial statements or associated audit risks, audit procedures and results of audit procedures.

Rather, we feel that additional information presented by the auditor may lead to confusion as to which party is responsible for financial information and introduce additional risk to the company and audit firm.

- Third, the AD&A as presented in the Concept Release would be similar to the communications that currently take place between the auditor and the audit committee. While this sounds like a good solution, the two-way communication that takes place between the auditor and audit committee would be missing. We believe this dialogue is a key element of the communication process and that without it, the written words could be taken out of context and used incorrectly in making investment decisions. The auditor's views should be shared with the Audit Committee through the existing communication process -- it is ultimately management's responsibility to ensure that disclosures are transparent and fair.
- Fourth, the drafting of an AD&A supplement by the auditor could take a significant amount of the auditor's time. It could also lengthen the timetable between when a company closes its books and files its financial statements with the SEC, increasing audit costs and delaying the release of much anticipated financial information that would help investors manage their portfolios.
- Fifth, it is critical that open dialogue between auditors and audit committees be preserved, and this proposal could limit those discussions. In order to protect themselves against liability from eager plaintiffs' attorneys who seek comprehensive discussions of all deliberations, auditors will be incentivized to "over-disclose" in AD&A supplements, and include records of all discussions with management and audit committees. This practice would, in turn, convert audit committee meetings into formulaic, compliance-driven "check-the-box" sessions and eliminate the dynamic of open dialogue that is critical to effective governance.

Likewise, we are concerned with the proposed use of emphasis paragraphs. We believe that required use of emphasis paragraphs may give investors the impression that the audit opinion is being qualified in some manner and would unduly focus investors on certain components of the financial statements. We also believe that the use of emphasis paragraphs would result in a de facto "super-materiality" standard for corporate disclosures, in which plaintiffs' lawyers seek damages not only when risks are undisclosed, but when they are disclosed "only" in a company's filings but not called out specifically for emphasis by auditors. The end result, of course, would be longer auditor reports and even less attention paid to making the primary disclosures accurate and transparent. We believe that investors should be reading financial statements and notes thereto along with the MD&A and Earnings Releases in their entirety to gain a full picture of the financial health and risks of the company rather than focusing on specific aspects highlighted by the auditor. We believe that risk of misinterpretation of auditor's comments would introduce even greater risk to the capital markets.

We are concerned about auditor assurance requirements for information outside the financial statements. While some of the information comes directly from the financial statements, much of the information contained in the MD&A and Earnings Release is not derived from or coming directly from the financial statements or the information is forward

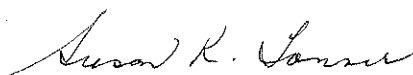
looking in nature, which would be very difficult, if not impossible, to audit. We believe that if the scope of information contained in these documents were limited to what can be independently verified by the auditor, management would be forced to limit its communications with investors. This would be a negative consequence given that investors are able to gain an independent understanding of management's ability to estimate through its comparison of actual results versus the guidance that is currently provided in Earnings Releases. As with the AD&A and required emphasis paragraphs, requiring assurance on management's forward-looking financial information contained in the MD&A and Earnings Release would lengthen the timetable between when a company closes its books, releases earnings and files its financial statements with the SEC. This would increase audit costs and divert management's attention to past financial results for a longer period of time when they should be focused on current operations. In addition, requiring auditor assurance on these disclosures could deter companies from including forward-looking analysis or management perspective in these documents in the first place. Furthermore, auditors cannot take advantage of the SEC's safe harbor rules applicable to forward-looking information, with the result being that auditors' liability for inaccuracies in such disclosures would actually go beyond those of the issuers themselves. Such a result could put further pressure on issuers to eliminate such statements entirely, reducing transparency for investors.

We also believe it is noteworthy that current auditing standards describe the auditor's responsibilities regarding other information outside the financial statements in documents containing audited financial statements (e.g., MD&A). As described in the release, these responsibilities include reading and considering whether such information or the manner of its presentation is materially inconsistent with the financial statements or represents a material misstatement of fact. As mentioned above, it may be helpful to investors to describe the auditor's responsibilities related to financial information outside the financial statements in the auditor's report.

In summary, we are supportive of the Board's efforts to introduce alternatives to the audit reporting model that would meet the needs of investors and be practical for management, audit committees and audit firms to adopt in a cost-effective manner. We believe that the focus should not be on providing more information to investors but improving the quality of information to investors. We believe that better information can be provided through a combination of clarifying changes to the audit report by the PCAOB coupled with targeted standard-setting by the FASB or SEC.

We appreciate the opportunity to present our views on this subject and welcome the opportunity to meet in person to review them with you. Thank you for your attention and consideration.

Best regards,



Susan K. Tonner
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Acquisition Policy