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Office of the Secretary  
Public Company Accounting Oversight Board (PCAOB)  
1666 K Street, N.W.  
Washington, D.C. 2006-2803

**Re: Request for Public Comment: *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* [PCAOB Rulemaking Docket No. 34]**

Dear Office of the Secretary:

MetLife, Inc. (MetLife) appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board's (PCAOB) **Request for Public Comment: *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards*** (the concept release). MetLife is a leading global provider of insurance, annuities and employee benefit programs, serving 90 million customers in over 60 countries. Through its subsidiaries and affiliates, MetLife holds leading market positions in the United States, Japan, Latin America, Asia Pacific, Europe and the Middle East. Our responses incorporate consideration of our position not only as a preparer of audited financial statements for a widely-held public enterprise, but also as a significant financial statement user, with a general account investment portfolio of US corporate debt and equity securities of approximately \$100 billion as of June 30, 2011.

Metlife supports the PCAOB's overall effort to undertake standard-setting initiatives to consider certain enhancements to improve the quality and content of the current auditor reporting model. However, any changes must provide useful and objective information to investors and other financial statement users, while continuing to acknowledge that the preparation of the financial statements and related disclosures are the responsibility of management and that the auditor's opinion is on the fair presentation of the financial statements taken as a whole.

In our view, it is management's role, and not that of the auditor, to disclose all financial information relevant to investors and other financial statement users to facilitate making informed decisions based on those financial statements. Management owns the financial information, is most familiar with it, and is in the best position to disclose it in the most complete and meaningful manner. The primary role of the auditor's report should remain in providing an opinion as to whether the financial statements present fairly, in all material respects, the financial condition, results of operations, and cash flows in accordance with the applicable financial

reporting framework. The auditor's opinion on the financial statements, in our view, must remain, and, perhaps more importantly, be perceived by financial statement users to remain, on the financial statements "taken as a whole". The moment the auditor's report begins to discuss specific audit risks, audit procedures, management judgment calls, etc. the perception of the opinion not covering the financial statements overall is compromised, which we believe will inevitably lead to lack of clarity, consistency and comparability for financial statement users.

In this regard, while MetLife does support the specific proposals in the concept release requiring the auditor's report to provide additional information to clarify what an audit represents and the auditor's specific responsibilities, we do not support the addition of an Auditor Discussion and Analysis (A, D&A) to the auditor's reporting model nor the required and expanded use of emphasis paragraphs in the auditor's report, as introduced in the concept release.

Certain disclosures suggested for the auditor's report in these areas are already required as part of financial statement prepared in accordance with Accounting Principles Generally Accepted in the United States (US GAAP), while others have traditionally been confined to communications between the auditor and the company's audit committee. Providing the latter information publicly, without the appropriate context or comparability, may lead to significant levels of confusion and potentially misinformation for financial statement users. Because any new disclosures in the auditor's report will most likely result in a company opting to make many of those disclosures themselves, it could result in the audit community being perceived as effectively dictating a new round of required financial statement disclosures. However, there would be no established framework to ensure consistency and comparability afforded financial statement disclosures that are subject to the full exposure and comment of the due process established by the Financial Accounting Standards Board (FASB). In this regard, if investors and other users feel the need for new or expanded disclosures in the audited financial statements to provide additional insight into areas of significant risk, uncertainty or judgment, management should be explicitly required to make those disclosures. Such disclosures should be established through the same standard-setting process as all other financial statement disclosures, and auditors would then encompass those disclosures in their overall opinion on the fair presentation of the financial statements.

The following pages present our more specific thoughts on each of the four potential alternatives for changes to the auditor's report outlined in the concept release: (1) A, D&A, (2) Required and Expanded Use of Emphasis Paragraphs, (3) Auditor Assurance on Other Information Outside the Financial Statements and (4) Clarification of the Standard Auditor's Report. We once again thank you for the opportunity to respond to your proposals and your consideration of our observations and comments. If you have any questions regarding the contents of this letter, please do not hesitate to contact me.

Sincerely,



Peter M. Carlson

cc: William J. Wheeler  
Executive Vice President and  
Chief Financial Officer

Karl Erhardt  
Senior Vice President and  
General Auditor

***Auditor’s Discussion and Analysis and  
Required and Expanded Use of Emphasis Paragraphs (Emphasis Paragraphs)***

In accordance with generally accepted auditing standards, auditors design the audit and, in turn, related audit procedures, taking into consideration, among other things, materiality, financial and non-financial risks, and the review and understanding of management judgments, including the application of alternatively permissible accounting treatments, all of which can vary significantly between companies. The consideration of all of this information, when taken as a whole, along with the results of their overall and unique set of audit procedures designed to address these risks and uncertainties, allows the auditor to form an opinion as to the fair presentation of the overall financial statements, including financial statement disclosures.

The proposals in this concept release contained in the A, D&A and/or the Emphasis Paragraphs involve potential disclosure by the auditor of specific audit risks and specific audit procedures to address those risks, difficult and contentious issues with management, significant management judgments and estimates, and alternative accounting treatments.

ASC 275, *Risks and Uncertainties*, currently requires management to disclose in the audited financial statements, risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term, or the near term functioning of the company, stemming from the nature of the company’s operations, the use of estimates, and significant concentrations in the company’s operations. Financial statements prepared in accordance with US GAAP, therefore, already contain audited footnotes addressing many of the potential suggested disclosures raised in the concept release.

We believe that the additional suggested disclosures already form part of the required “internal” disclosure today between the auditor and the company’s audit committee and should not be considered for incorporation into the auditor’s report for the following reasons:

- a) There could be a wide variety of interpretations by financial statement users as to how the information should be interpreted and used unless the entire context to which this information relates in the overall formation of the auditor’s opinion is discussed and disclosed.
- b) Audit committees of public companies in the United States are required to have at least one “financial expert” with knowledge of accounting and experience in preparing, auditing, or analyzing financial statements with a level of complexity of accounting issues that are generally comparable to the complexity of issues that can reasonably be expected to be present in that particular company’s financial statements. In contrast, most financial statement users do not have the requisite audit or accounting background to assess whether certain audit procedures performed were adequate to address the risks identified by the auditor, thus potentially creating confusion and misunderstanding if disclosed.
- c) Certain audit risks and related audit procedures are common to many companies, for example, those in a particular industry. Without providing a framework that can be consistently reported that would allow differentiating one company’s specific audit risks and related procedures from another will significantly diminish the usefulness of providing this information.

- d) There are currently a significant number of accounting standards that allow more than one acceptable treatment for the same transaction, based on management's judgment. As accounting standards become more principles-based, alternatively permissible accounting treatments will only increase and potentially become more overwhelming to financial statement users to sort out. Also, without quantifying the effects of such differences, these disclosures will most likely create more confusion than clarity.
- e) We believe that information regarding the difficult or contentious issues (including "close calls") faced by an auditor is best left for discussion with a company's audit committee in their governance role rather than inclusion in the auditor's report. Requiring this type of disclosure in the auditor's report could conceivably have the effect of stifling, constraining, and even eliminating often constructive dialogue between a company and its auditors on routine accounting matters, because of the natural tendency for this type of activity to be viewed negatively by the public, if ever disclosed by the auditor. At an extreme, over time this could have the unwanted effect of the auditor's views on all accounting matters unduly influencing management's view, putting pressure on the perception of auditor independence.

As an alternative to the A, D&A and Emphasis Paragraphs, so as not to diminish the current role of the audit committee, we believe that any new disclosures regarding risks and accounting practices and judgments, if any, should be made by management and developed through the appropriate accounting standard-setting process for inclusion in the audited financial statement footnotes. This will allow for appropriate consideration and input of users, preparers, and other stakeholders and provide a consistent framework to ensure comparability and usefulness. Current SEC Regulation S-X Management, Discussion and Analysis (M, D&A) disclosure requirements for public companies of critical accounting estimates, for example, could be formally incorporated into the audited financial statement footnotes and expanded or revised as needed to address many of the concerns raised in the concept release.

### ***Auditor Assurance on Other Information Outside the Financial Statements***

The concept release discussed another alternative to enhance the auditor's reporting model, which could be to require auditors to provide assurance on information outside the financial statements, such as M, D&A or other information (for example, non-GAAP information or earnings releases).

Current auditing standards describe the auditor's responsibilities regarding other information outside the financial statements in documents containing audited financial statements (e.g., M, D&A). 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.

Although we believe that an auditor providing assurance on information outside of the financial statements could potentially improve the quality, completeness, and reliability of such information, we are not sure that the benefits outweigh the costs. In addition, most companies accessing the equity and debt markets periodically provide "comfort letters" to underwriters and attorneys that represent investors' interests. Although these letters outline specific procedures and provide support for underlying financial information contained outside the financial statements, they are not public reports and may not be issued very often by some companies. However, because they can be required unexpectedly at any time, it is not uncommon for companies to expect their auditors to perform a level of review each reporting period on the information outside of the financial statements in anticipation of potentially issuing a comfort letter at some later date. Current attestation reports outlined in the auditing standards with respect to M, D&A are not generally used in lieu of comfort letters, which could call into question whether the benefits of requiring such reports in some form or fashion will outweigh the cost.

Therefore, our recommendation is for the auditor's report to contain clarifying language as to the auditor's current responsibility for information outside the financial statements and not require the auditor to separately report on other information outside of the financial statements.

## *Clarification of the Standard Auditor's Report*

MetLife supports the PCAOB's potential enhancement of the auditor's reporting model that would involve clarifying language in the existing standard auditor's report to provide additional explanations in order to help financial statement users understand the auditor's report and clearly understand the auditor's responsibility, as described more fully below:

- *Reasonable Assurance* – We do not believe the meaning of the term “reasonable assurance” is misunderstood, and therefore, no further clarification in the standard auditor's report is necessary.
- *Auditor's Responsibility for Fraud* – The standard auditor's report does not mention "fraud", language from the auditing standards should be added to the auditor's report to clarify the auditor's responsibility.
- *Auditor's Responsibility for Financial Statement Disclosures* – The auditor's report should be clarified to enumerate the auditor's responsibility with respect to footnote disclosures in forming an opinion on the financial statements taken as a whole. It is important for financial statement users to explicitly understand that the auditing standards require auditors to: (a) perform procedures to test the financial statement disclosures and to evaluate whether the financial statements contain the information essential for fair presentation of the financial statements in conformity with the applicable financial reporting framework, (b) perform procedures to assess the risk of omitted, incomplete, or inaccurate disclosures, whether intentional or unintentional; and (c) to identify and test significant disclosures and, in integrated audits, to test controls over significant disclosures.
- *Management's Responsibility for the Preparation of the Financial Statements* – The auditor's report already states Management's responsibility, so we do not believe that additional clarification is warranted here.
- *Auditor's Responsibility for Information Outside the Financial Statements* – With respect to SEC filings, the auditor has a responsibility to read the other information in documents containing audited financial statements and consider whether such information, or the manner of its presentation, is materially inconsistent with the financial statements or represents a material misstatement of fact. We believe it would be beneficial for the audit report (at least for SEC registrants) to describe the auditor's responsibility with respect to such other information.
- *Auditor Independence* – We believe that the auditor's report could be clarified to include a statement in the auditor's report, in addition to the title, that the auditor has a responsibility to be independent of the company and has complied with applicable independence requirements of the PCAOB and SEC.