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October 12, 2011

Submitted Electronically

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards, PCAOB Rulemaking Docket Matter No. 34

Dear Members of the Public Company Accounting Oversight Board:

Vanguard appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (the "PCAOB") *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* (the "Concept Release"). We appreciate the PCAOB's focus on the concerns of investors in relation to financial statements and proposed enhancements to the auditor's reporting model and we commend the PCAOB for seeking input from various stakeholders who participate in the audit and financial reporting process, including an issuing company's management, independent auditors and investors. As discussed below, we support meaningful disclosures in annual reports that focus on matters of critical importance to investors by means of enhancements that are workable within the current regulatory reporting framework. Accordingly, we recommend the expanded use of meaningful emphasis paragraphs which identify significant risks in the financial statements and how the auditors responded to those risks, as well as clarifying language in the standard auditor's report.

As both a *consumer* of financial information and *issuer* of hundreds of financial statements, we believe that Vanguard brings a special perspective to the debate. Vanguard offers more than 170 U.S. mutual funds holding assets of approximately \$1.6 trillion at August 31, 2011. Each of these mutual funds is registered with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940 and their shares are registered with the SEC under the Securities Act of 1933. Investment companies, as issuers of securities, are required to file audited financial statements with the

SEC and mail annual and semi-annual reports to their shareholders within designated time frames under SEC rules. In addition, in their capacities as investors in the securities markets, investment companies review and analyze companies' financial statements that are filed with the SEC when making investment decisions on behalf of their investors.

Current roles of management and auditors should not change

We recognize that management is responsible for preparing a company's financial statements and, as such, management should continue to be the primary source of disclosure about the company with primary liability for errors and omissions in that disclosure. Financial statements are often lengthy and complex and typically include an extensive set of notes that describe in further detail items included on the balance sheet, income statement and cash flow statement. Because financial statements are so detailed, it can be difficult for investors reviewing financial statements to identify those areas of significant importance to understanding the results of operations and financial condition of issuers. Sophisticated investors who understand the detailed financial statements would also benefit from additional information about areas in the financial statements involving significant management estimates or judgments.

While management is responsible for preparing the financial statements, the audit process is valuable and during the course of that process auditors may gain unique and relevant insight into a company that could be useful to an investor in terms of helping the investor navigate and understand management's disclosures in the financial statements. The auditor's report is the means by which auditors communicate to investors. Given the valuable nature of the audit process, we believe that the auditor's report could be enhanced to be more informative for investors. That being said, any changes to the auditor's reporting model should be practical and implemented in a measured way that balances the benefits of any changes with the potential increased burdens on issuers and auditors within the established regulatory reporting framework. For example, on balance, it may not be practical to implement new requirements to include Auditor's Discussion and Analysis (AD&A) in annual reports. In our view, any changes that would impose significant and unnecessary burdens on issuers or auditors without meaningful disclosure enhancements would not ultimately benefit investors.

Vanguard supports meaningful emphasis paragraphs in the auditor's report

It is our view that the auditor's report accompanying the financial statements could be enhanced to the benefit of investors by expanding the use of so-called emphasis paragraphs, which direct readers of the report to areas of special interest and significance in the accompanying financial statements. Drawing on the auditor's unique insight into the company, expanded use of emphasis paragraphs, when applicable, would allow auditors to highlight for investors the area or areas that the auditor considers to be the most significant to a better understanding of the financial statements, and would identify for investors where these significant matters are more fully disclosed in the financial statements and the accompanying notes.

As proposed in the Concept Release, emphasis paragraphs could be used to highlight areas of the financial statements that include significant management judgments and estimates and areas with significant measurement uncertainty.¹ Within these emphasis paragraphs, auditors would be required to discuss the audit procedures performed on the emphasized matters. The emphasis paragraphs should be substantive and not reduced to boilerplate, which would not be helpful to investors. The expanded use of emphasis paragraphs in the auditor's report could also potentially increase the quality of management's disclosures in the financial statements.

Importantly, emphasis paragraphs would not undermine management's ultimate responsibility for the statements themselves and accompanying disclosure. The use of emphasis paragraphs would, rather, allow investors more transparency into those areas of the company's financial statements, if any, that involve significant management judgments and estimates or areas with significant measurement uncertainty. Emphasis paragraphs would provide useful guidance to investors as to how the auditors satisfied themselves that significant estimates are reasonable without being unduly costly or burdensome to either auditors or issuers.

If no matters of emphasis exist, the auditor should make that affirmative statement

To be useful to investors, emphasis paragraphs should be used to highlight areas in the financial statements that involve significant management judgments and estimates and areas with significant measurement uncertainty. However, the financial statements of many issuers may not be dependent upon significant management judgments and estimates and areas with significant measurement uncertainty, and under those circumstances, there will be nothing that the auditor should be *required* to emphasize. In these instances, it is our view that the use of emphasis paragraphs should not be imposed as a requirement. In addition, we believe that required emphasis paragraphs in auditor's reports could potentially cause investors to rely solely on auditors' reports, potentially limiting the extent to which investors otherwise read the financial statements, which should continue to be the primary source of investor information about the results of operations and financial condition of an issuer. Requiring emphasis paragraphs may serve to lessen the impact and effect of such paragraphs, resulting in unnecessary boilerplate that could detract from a better understanding of the accompanying financial statements, which would not benefit investors. In light of the fact that emphasis paragraphs may not be required in some annual reports, in those instances we recommend that the auditors be required to state affirmatively that the financial statements do not contain any significant management judgments and estimates or areas with significant measurement uncertainty.

¹ As acknowledged in the Concept Release, we recognize that PCAOB would need to develop new auditing standards in collaboration with the SEC and FASB to direct auditors in determining the specific types of matters that should be emphasized in the auditor's report.

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We also support adding clarifying language to the existing standard auditor's report. We recognize that some investors may not fully understand the financial statement preparation process, or what an audit represents, or the related auditor responsibilities. Accordingly, we believe that providing investors with an explanation and clarification around what an audit represents, the auditor's responsibilities, and certain terminology could meaningfully increase financial statement users' understanding and knowledge of the audit process and the auditor's report.

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Vanguard appreciates the opportunity to provide these comments on the PCAOB's Concept Release.

Sincerely,

/s/ Gus Sauter

Managing Director and
Chief Investment Officer

/s/ Glenn Reed

Managing Director,
Strategy and Finance Group