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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 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 responsibilities 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

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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 4.3.1¹¹ 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.