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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.

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

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.

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[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.

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.

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[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.

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.

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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
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