January 9, 2012

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Audit - Tax - Advisory

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687

T 312.856.0200
F 312 565 4719
www.GrantThornton.com

Re: PCAOB Rulemaking Docket Matter No. 29, ***Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2***

Dear Board Members and Staff:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) ***Proposed Amendments to PCAOB Auditing Standards and Form 2***, and we respectfully submit our comments and recommendations thereon. Overall, we support the Board's initiative to evaluate the transparency of audits and the accountability of auditors and to consider possible changes that might provide value to the marketplace. Nevertheless, we have several reservations regarding the proposed amendments. We do not agree with the premise that transparency in the form of identifying the engagement partner and other audit participants in the audit report or in Form 2 will accomplish the goal of increasing accountability or improving audit quality. Further, we are concerned that investors, issuers, and auditors might suffer unintended negative consequences if such disclosures become required.

To enhance investor protection, we believe that a focus on continual improvements to the system of oversight and quality control should be the primary method of achieving the goals of ensuring accountability and improving audit quality. Such improvements should focus on audit firm and regulatory supervision of both firms and engagement partners. In that regard, we also believe that the expansion of the PCAOB's inspections of non-U.S. firms will increase the accountability and transparency for those firms. In addition, the efforts being made by the accounting and auditing profession and each of the firms individually to enhance and develop root cause analyses should prove to be a powerful tool in identifying potential audit quality issues, particularly for specific individuals. Finally, we would note the significant changes in standards related to the execution of the audit that have recently become effective or are currently being contemplated. In consideration of all of these activities, we believe that further actions such as those in the proposed amendments are not necessary or beneficial.

Our specific comments and concerns, which align with the specific proposals in the PCAOB's release, are provided below.

Disclosure of the engagement partner

We previously indicated in our letter, dated September 11, 2009, in response to the Board's ***Concept Release on Requiring the Engagement Partner to Sign the Audit Report*** that we support the overall goal of increasing transparency. Effective audit transparency provides investors with information that helps them understand (1) how the audit was conducted, and (2) whether the audit firm conducts audits with an appropriate level of quality. The goal in providing such information is to enhance investors' ability to make investing decisions that fit within their risk tolerances. It is critical, therefore, that the information disclosed be of such a nature that it is unlikely that it could be misconstrued, thus leading investors to make decisions they would not otherwise make because the information paints an incomplete picture of the audit or audit quality. In the current financial reporting process, the audit committee is ascribed primary responsibility for assessing the completeness of the auditor's proposed audit approach and response to audit findings as well as assessing the quality of the audit team and audit firm.

Beyond providing investors with valuable information, the Board's proposal contemplates that increasing transparency by disclosing the engagement partner's name will also increase partner accountability. We continue to reject the notion that disclosing partners' names will somehow make them feel more accountable than they do today. Engagement partners, especially public company audit partners, are held accountable through a wide array of oversight mechanisms. Additionally, each partner wakes up every day knowing that their audit work will be subject to scrutiny by others – sometimes intense scrutiny. Such oversight includes the engagement quality reviewer, the firm's national office consultation requirements, the firm's domestic internal inspection program, the firm's global inspection program (for global firms like ours that have such programs), PCAOB inspections, peer review inspections (for non-public audit work), and Department of Labor inspections (for audits of employee benefit plans). Further, every engagement partner knows that their public clients' financial statements are subject to mandatory periodic SEC review, which could lead to questions related to the audit. Even further, audit documentation is regularly subpoenaed in connection with regulatory examinations or litigation. Whenever a partner signs an audit report, the partner knows their reputation, their compensation, and possibly, their careers are on the line. It is not conceivable for the disclosure of their name to enhance that sense of responsibility. It is possible, however, for the disclosure of the engagement partner's name to harm partners, investors, and issuers.

Having addressed the issue of engagement partner accountability, the only remaining potential benefit of disclosing engagement partner names is improvement to the information investors use to make decisions. It is here that we find our greatest concerns about the proposed amendments. In order for disclosure of the partner's name to enhance investor decision making, it must tell them something they need to know to make an informed decision, and it must be complete and accurate. Using those criteria, we ask what value investors could gain by knowing the engagement partner's name? The Board's release suggests that identifying the engagement partner in the audit report might afford users "the opportunity to evaluate, to a degree, an engagement partner's experience and track record." One might suggest that investors could link a partner's name to the audit of another company that had restated its financial statements due to error or fraud, thus drawing some inference about that partner's quality; but such an inference would be wildly incomplete. It would not, and could not, take

into account other factors outside of the partner's performance on the engagement; factors such as the root cause of the restatement, the details of the client's internal control system, the role the audit committee, management, and internal audit played in the restatement, the extent of consultation with others in the firm, the fact that the audit teams beneath the engagement partner could be entirely different on both engagements, and so forth. Drawing a conclusion about potential audit quality simply through the name of the engagement partner is analogous in some respects to judging a book by its cover. It is one small data point in a vast array of information relevant to the conduct and oversight of an audit. That is why the auditing profession has the far reaching accountability structure described earlier. By the time an engagement partner's name rightly becomes associated with low quality audit work – enough of a risk to influence an investor's decision – that partner's work will already be under intense scrutiny by others, including the PCAOB.

It is not possible for investors, by knowing a partner's name, to make a truly informed investing decision. It is, however, entirely possible for investors to use the partner's name, in the absence of complete information, to make uninformed decisions that they would not otherwise make. Doing so will bring unintended harm to engagement partners, issuers, and ultimately to the investors these proposed amendments are seeking to help.

The Board's release seeks to support the notion of disclosing partner names by drawing an analogy to the certification and assertion requirements of a public company chief executive officer (CEO) and chief financial officer (CFO). However, CEO and CFO certifications and assertions are only associated with a single company. Assume Company A has a restatement due to error or fraud. Investors in Company B, C, and D, which may be in the same geographic area or industry, are not likely to suffer stock price declines because Company A's CEO and CFO signed public certifications and assertions. Alternatively, assume all four companies have the same engagement partner and that partner's name is disclosed. It is entirely possible for Companies B, C, and D to suffer stock price declines merely by the association of the same engagement partner – even though investors in those companies do not and cannot have complete information about the audit quality related to their specific investees. Accordingly, inappropriate third party inferences may negatively affect other market participants.

Additionally, the identification of the engagement partner could personally affect that partner. If there was an existing issue involving the issuer, including the name of the engagement partner could result in severe negative consequences to that partner without due process. As we previously communicated to the Board, engagement partners and their families could be subject to unwarranted or unwelcome communications from disgruntled shareholders and others. At a minimum, audit committees of other clients served by that partner may feel compelled to force prematurely a change in engagement partners merely for public perception reasons. For these reasons, and the potential for increased litigation described below, we believe that it is likely that high-quality audit professionals will choose either to leave the profession or refuse to serve as engagement partners on issuer audits if the proposed amendment is adopted.

Proposed audit report disclosure

If the Board were to adopt an approach whereby the engagement partner's name is disclosed in the audit report, we believe that the Board must first collaborate with the U.S. Securities and Exchange Commission (SEC) so as to further consider and evaluate the potential liability implications. Although it may be possible that such disclosure may not increase liability under Section 10(b) of the Securities and Exchange Act of 1934, we share the concerns expressed by others as to increased liability under Section 11 of the Securities Act of 1933. We also question the potential partner liability implications related to consents under Section 7 of the Securities Act of 1933 with respect to being named in the SEC filing; that is, whether the engagement partner must file a consent based on the name disclosure and, if so, the related liability implications. As the Board does not intend to increase an engagement partner's liability, it would be prudent for the PCAOB to obtain the SEC's views and clarifications with respect to these matters prior to adopting a final standard, specifically the SEC's conclusions that the name identification would not increase liability under the Securities Act of 1933 or the Securities and Exchange Act of 1934 and that a consent is not required.

Regardless of any PCAOB or SEC clarifications with respect to a partner's liability under the Securities Act of 1933 or the Securities Exchange Act of 1934, we have little doubt that more engagement partners would be named in private litigation. Even though an engagement partner may ultimately be found to have fully complied with all professional standards and regulatory requirements, being named in litigation seriously affects a partner's life for many years, including both personally (such as the inability to obtain or refinance a loan) and professionally (such as the refusal by audit committees to accept the individual as the engagement partner).

With respect to the proposed name disclosure itself, the Board requested comments as to whether the disclosure clearly describes the engagement partner's responsibilities. We believe that to clearly describe such responsibilities, an extensive narrative would be necessary. Nonetheless, we recognize that the Board is limiting the disclosure of the engagement partner to the most recent period to address certain practical issues raised in comments received on the Concept Release. We continue to believe that the firm is responsible for all periods on which it is reporting and that disclosing the engagement partner's name for the current period can imply that there is a difference in the balance of responsibility between the firm and the partner from year-to-year. This issue can seem compounded with the proposed differences in reporting when there are changes in the engagement partner and when the engagement partner was responsible for all periods presented. With respect to the specific proposed amendments to AU section 508, ***Reports on Audited Financial Statements***, we request that the Board also consider the following should this proposal be adopted final:

- Reconsidering the dual-dating disclosure requirements. Although this may seem to provide more transparency, we are concerned that the engagement partner reporting on the event resulting in the dual-dated audit report may be inappropriately associated with that event. For instance, if the dual date resulted from a restatement to correct an error and a partner other than the original engagement partner audited the restatement, the partner dual-dating the audit report could be inappropriately associated with the restatement.

- Addressing other report reissuances. The proposed standard does not clearly indicate that when a predecessor auditor reissues the audit report for comparative purposes, the reissued report can eliminate the reference to the engagement partner responsible for the audit. We assume this would be appropriate since the engagement partner need only be disclosed for the most current period, rather than the most current period audited by the firm. Also, when an audit report is reissued and dual-dating is not an option, it is not clear what a firm is expected to do when the report is re-dated as of a later date and a different partner was responsible for bringing the report date current. We cannot envision a practical solution to address this particular situation.

- Modifying the proposed language in the standard disclaimer of opinion. Although this is expected to be rare for issuers, it may not be as rare for non-issuer broker-dealers. As such, we propose eliminating the notion that an audit was completed by using language similar to the following: "The engagement partner responsible for this report ***(on the 20XX financial statements)*** was [name]."

Proposed amendment to Form 2

Although disclosure in Form 2 would allow investors, audit committees, and other third parties that seek the name of the engagement partner and other audit participants to obtain such information from one location, we reiterate our reservations with respect to the potential for inappropriate investor inferences from one audit or company to another and for other negative consequences that are discussed herein and in our previous letter to the Board.

Utilization of Form 3

When there is a change in the engagement partner, we do not support a requirement to file a Form 3, whether the change pertains to rotation or otherwise. In our view, a Form 3 disclosure has a high potential for causing more confusion than benefit, especially if no explanation for the change or for the related quality control procedures that are in place to address the change is provided. We believe that, in some case, it may not be reasonably possible to disclose the reason for the change due to, for example, privacy laws and restrictions. From a different perspective, however, a Form 3 disclosure would further promote the responsibility of the engagement partner and minimize the role of the firm. The disclosure may also potentially alarm investors that a change has occurred outside of the normal rotation period, indirectly inferring that the quality of the audit or the auditor's independence may be affected. To enhance investor protection, we would support the development of standards that address firm quality control procedures in situations in which an engagement partner has unexpectedly changed during the course of an audit engagement. Such standards could include discussions with the audit committee regarding the qualifications of the new engagement partner and the related firm quality control measures.

Disclosure of other participants in the audit and referred-to firms

We can understand the need for transparency regarding other participants in the audit. Yet, we have certain fundamental concerns with disclosing such participants in the audit report. First, without providing extensive information, any such disclosure could create a high level of confusion as to the role of those other participants. We believe that the illustrative examples

provided by the Board point out the confusion that could arise as to the responsibility of the principal (group) auditor and the lack of information about the nature of the work performed by each participant. For instance, confusion may result with respect to the differences between assuming responsibility and making reference. Currently, when assuming responsibility for another auditor's work, the audit report does not mention the use of these other auditors so as not to detract from the group auditor's overall responsibilities. We believe that the proposed disclosure may have this effect, especially combined with the disclosure of the percentage of hours attributable to the other participants in the engagement.

Second, we have significant concerns with the belief that the proposed disclosure would enable investors and other report users to consider disciplinary history and whether the other audit participants are subject to PCAOB inspection and the belief that providing such transparency is warranted because the quality of services provided by other firms may vary. These beliefs would seem to undermine the overall credibility of the audit report. In that respect, one may infer through the statements in the Board's release that an audit report is less reliable if an audit firm used another firm that, for example, has had some disciplinary history even though the firm signing the report will have considered that history and put appropriate oversight procedures in place. Promoting a marketplace whereby the level of assurance provided by an audit report is determined based on limited knowledge of the use of other audit participants (absent relevant information about quality control processes in place to assume responsibility) does not seem to be in the best interests of the marketplace. To enhance investor protection, we would support the development of standards that more fully address the use of other audit participants and the relevant considerations related to PCAOB inspections or lack thereof.

We would like to point out that, in many cases when assuming responsibility, the other audit participants are members of an international network of firms that generally maintain the same or similar quality control processes. We are concerned that investors and other report users may not fully understand the relationship of these member firms to the firm signing the audit report. The Board may need to consider the ability of an audit firm to clarify, within the audit report, the relationship with its network firms, consistent with their network firm agreements. For instance, an audit firm may be required to describe the legal relationship and the separate and distinct responsibilities of member firms within the network. That said, however, it is possible that such a description may cause additional confusion as to the group auditor's overall responsibilities. The disclosure of other audit participants could also affect the willingness of firms, regardless of whether they are member firms, to participate in certain audit engagements.

We are also concerned with adopting changes to the standard audit report in advance of finalizing the Board's more comprehensive project regarding the auditor's reporting model, as well as the Board's project on audits performed by other auditors. We do not view this transparency matter as a separate, standalone issue and believe that the Board should consider these proposals concurrently.

Disclosure when assuming responsibility or supervising

Should the Board adopt the proposal, we generally agree with the scope of the requirement to limit the disclosure to other participants performing audits and audit procedures whereby the

audit firm assumes responsibility for the work performed, while excluding engagement quality reviewers, specialists, and those performing Appendix K reviews. It should be noted, however, that some firms, like ours, may have adopted, in addition to all relevant PCAOB standards, the general principles for group audits under International Standards on Auditing (ISA). Accordingly, prior to adopting the proposal, we suggest that the Board consider its other standard-setting activities related to audits performed by other auditors. The ISAs provide guidance with regard to the work to be performed on significant components and other insignificant components. In this regard, should the Board adopt a similar approach, the requirements for when disclosure is made in the audit report could be linked to the significance of the component. In addition, we believe that the Board should consider our comments above related to dual-dating and other report reissuances and their potential effect on the disclosures related to other audit participants. That said, we do not believe that the disclosures would need to be updated for report reissuances.

Percentage of hours and disclosure thresholds

We strongly believe that the percentage of total hours would not accurately portray the relevance of the work performed, particularly with a low threshold of three percent. Since investors have expressed a strong interest in knowing whether those participating in the audit are subject to PCAOB inspection, we believe that, should the Board adopt the proposal, using the "substantial role" criteria as the relevant benchmark for separate disclosure of the names and locations of each of these participants would be a much better approach. We would expect those participants that play a substantial role to be similar to those that perform an audit, adapted as necessary, for significant components, as contemplated by the ISAs (see previous discussion). In this case, disclosure of the specific percentage of hours for each participant need not be provided, as it would be clear that their role was substantial. Form 2 could then be used to disclose all other audit participants that do not play a substantial role based on their PCAOB registration and inspection status.

Should the Board adopt the amendments as proposed, it is likely that the final hours may be different than those used in the calculation of the percentage of total hours as of the report date. Accordingly, we believe that the Board would need to be cautious regarding inspection findings in this area. Significant judgments would need to be made with regard to whether the audit firm technically failed to comply with PCAOB standards, including whether the firm's audit report would need to be reissued to correct any inaccuracies. It would not be pragmatic nor in the public interest for an audit report to be reissued for this purpose outside of the requirements related to financial statement reissuances.

Disclosure when dividing responsibility

Because the SEC requires the audit report of a referred-to firm to be included in the relevant SEC filing, we believe that the disclosure of a referred-to firm's name and location in an audit report that makes reference to another auditor is not necessary. Since this information is currently transparent, it seems to us that the PCAOB could eliminate this disclosure.

We understand the Board's responsibility to respond to investor needs and enhance investor protection. However, we believe that the perceived problem related to engagement partner accountability and audit quality would not be addressed by merely providing more transparency regarding the name of the engagement partner and other audit participants. An informed judgment about audit quality cannot and should not be based solely on such information. In addition, we believe that the negative consequences related to providing such transparency, including those pertaining to SEC filings, partner privacy matters, and the marketplace in general, would be greater than any perceived benefits. Continued improvements in firm quality control mechanisms and regulatory oversight, including the PCAOB's inspection initiatives overseas, their development of standards to address areas requiring additional attention, and their issuance of specific and robust procedural guidance where improvements in executing PCAOB standards are needed, will promote partner accountability and audit quality, while enhancing investor protection.

We would be pleased to discuss our letter with you. If you have any questions, please contact Karin A. French, National Managing Partner of Professional Standards, at (312) 602-9160.

Sincerely,