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January 23, 2012

PCAOB
Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 2006-2803

Reference: PCAOB Rulemaking Docket Matter No. 29, *Concept Release on Requiring the Engagement Partner to Sign the Audit Report*

CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) *Concept Release on Requiring the Engagement Partner to Sign the Audit Report.*

CFA Institute is comprised of more than 100,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that the quality of corporate financial reporting and disclosures provided to investors and other end users is of high quality.

CFA Institute Strongly Supports PCAOB Efforts To Improve Auditing Standards

CFA Institute supports the efforts of the PCAOB to improve the integrity and transparency of the audit of financial reports. Improvements in auditing standards are essential to restoring and maintaining confidence in the financial statements used by investors to make capital allocation decisions. We strongly support the proposed rule to require disclosure of the engagement partner and the PCAOB initiative to improve the auditor's standard reporting model. We view these steps as positive for investor protection.

Furthermore, we encourage the PCAOB to require disclosure of the extent to which the financial statements are audited by auditing firms other than the primary auditor so that investors have a better understanding of the role of auditors that may not be subject to PCAOB review. Disclosure should be required when other auditors are responsible for subsidiaries accounting for more than 10% of gross assets, equity, revenue, or net income.

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[1] With offices in Charlottesville, VA, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 100,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries, of whom nearly 83,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 57 countries and territories.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

Audit Firms Should Lead Rather Than Oppose Efforts to Improve Their Public Image

The audit profession has a public perception problem, most notably in the eyes of investors, as a result of well-publicized audit failures and ongoing concerns regarding auditors' role in firms affected by the financial crisis. Substantial surprise losses, frauds, and the lack of transparency have diluted investor confidence in the independent audit in recent years and investors increasingly question auditor independence, objectivity and professional skepticism. Bold actions have been proposed and need to be taken by the PCAOB, ideally with the support of the audit profession, to restore confidence in the independent audit. Auditors should lead the effort by urging the PCAOB to make reasonable and necessary changes to improve the quality of audits and the public's perception of their quality. Leading the effort rather than resisting reasonable proposals would send a strong signal to the user community that the audit profession recognizes the problem and wants to play a constructive role in a comprehensive solution. Substantial changes to the standard auditor's report, not mere tweaks, and disclosure of the engagement partner will help restore investor trust in the profession. We emphasize that investors ultimately pay for audits with scarce resources and, therefore, the needs of investors should be preeminent in the PCAOB decision to require disclosure of the engagement partner signature.

We also believe that, given the audit problems noted above, the PCAOB (in cooperation with the United States Securities and Exchange Commission) should continue to enhance its enforcement efforts in addition to strengthening auditing standards. The combination of better standards and stronger enforcement should serve to protect investors.

Disclosure of Engagement Partner Should Improve Actual and Perceived Quality of Audits

We disagree with the stated view of audit firms that identification of the engagement partner will not enhance audit quality. This is not simply a matter of enhancing audit quality, which we believe will indeed occur, but rather one of improving transparency and enhancing personal professional accountability; we believe that disclosure of the engagement partner will do both. Engagement partner signatures are already required in some countries outside of the United States, and we believe that requirement enhances transparency and personal accountability for the audits conducted in those jurisdictions.

Disclosure of the engagement partner as the individual with the primary responsibility for the audit distinguishes him or her from the client service partner who may exert influence regarding technical audit matters to preserve client relationships. We believe that disclosure of the engagement partner will strengthen that partner's ability to prevent pressures from others within the audit firm who may otherwise inappropriately influence the outcome of key audit related decisions.

We also believe that the engagement partner, as the primary individual responsible for the audit, should be held to the same level of personal accountability as senior executive officials at the company, such as the Chief Executive Officer and Chief Financial Officer. Disclosing the engagement partner in the public domain as the principal individual with responsibility for the audit will bolster investor confidence in the financial statements and the audit. Conversely, when a company audit turns out to be deficient, investors may view other audits for which that partner is responsible with more skepticism.

Comment on Actual Signature vs. Disclosure
We do not object to the proposed approach of simply disclosing the engagement partner in lieu of the actual signature since we believe that simple disclosure would provide the same benefits of improving transparency and enhancing professional accountability.

Disclosure of Other Participants in the Audit
In March 2010, CFA Institute asked investors whether they would like to have more information about who is performing the audit and how much of the audit they performed. An overwhelming majority (91 percent) agreed that, in cases where there is more than one auditor, the identities and specific roles of other auditors should be disclosed. Disclosure should be required when other auditors are responsible for subsidiaries accounting for more than 10% of gross assets, equity, revenue, or net income. Required disclosure should include the name and location of the subsidiary and the name of the auditor. Separate disclosure should be required for each case meeting the significance test.

We believe that these disclosures are necessary to make clear to investors which audit firm (or firms) bears responsibility for the audit of the financial statements on which investment decisions are based.

Closing Remarks

We thank the PCAOB for the opportunity to express our views on this proposal. If the PCAOB has questions or seek furthers elaboration of our views, please contact Matthew M. Waldron by phone at +1.212.705.1733, or by e-mail at matthew.waldron@cfainstitute.org.

Sincerely,

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