

March 13, 2014

PCAOB  
Office of the Secretary  
1666 K Street N.W.  
Washington, D.C. 20006-2803

**Reference:** PCAOB Rulemaking Docket Matter No. 029, *Improving Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit*

CFA Institute,<sup>1</sup> in consultation with its Corporate Disclosure Policy Council (“CDPC”),<sup>2</sup> appreciates the opportunity to comment on the Public Company Accounting Oversight Board’s (PCAOB) repropoed amendments to provide disclosure in the auditor’s report of certain participants in the audit.

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.

## GENERAL COMMENTS

The PCAOB reproposal seeks input on a number of topics in the form of 25 questions regarding the usefulness of the information to the stakeholders, added costs, specific effects on engagement quality, liability concerns, etc. Some of these questions seek quantifiable evidence to support the proposed amendments. However, it is our belief, and that of others who have been consistently engaged in this debate, that the essence of why the disclosures are beneficial is principally the behavioral change that should result. We believe that those who strongly oppose these amendments on the grounds of increased auditor liability, additional audit costs and other reasons are diverting attention from this behavioral aspect. We and other stakeholders contend that disclosing the engagement partner and other participants in the audit is the right thing to do to enhance personal accountability and therefore improve audit quality.

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<sup>1</sup> With offices in Charlottesville, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 116,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 137 countries, of whom more than 108,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 138 member societies in 60 countries and territories.

<sup>2</sup> 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.

As we wrote in our [letter](#) to the PCAOB on January 23, 2012:

*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.*

We are encouraged by statements from certain PCAOB members who also believe strongly that disclosure will strengthen personal accountability lead to enhanced audit quality.

In the **Appendix** to this letter we offer a number of strong investor focused views on why the disclosure of the engagement partner is considered appropriate and necessary. These views are excerpted from recent PCAOB speeches and public meetings. These observations and statements coming from highly respected individuals and investor organizations should direct the PCAOB to conclude that these measures are simply the right and reasonable thing to do.

We are also very encouraged by the February 3, 2014 comment letter ([#20](#)) to the PCAOB from the United States Senate, signed by Senators Tom Coburn, M.D. and Carl Levin. Their letter strongly supports the proposed changes and provides well reasoned arguments in favor of the proposed disclosures. Of particular significance are the following two points from their letter:

*Since the goal of the PCAOB's work is to improve audit quality, rather than shield individual auditors from legal liability, it is troubling that the Board has focused so much of its analysis on liability concerns and has based its decision on whether to require signatures in large part on that issue. Its decision is also troubling since the 2013 proposal seems to acknowledge that requiring auditor signatures would create stronger incentives for audit quality.*

And:

*In addition, professions such as public accounting have long nurtured trust and respect by placing the reputation of their senior professionals on the line in support of their work. An audit report that carries the personal signature of a financial professional would not only strengthen audit quality, transparency, and accountability, but also help restore the personal responsibility critical to a trustworthy and respected accounting profession.*

To conclude in favor of the matters in the reproposal would be consistent with the PCAOB's mission of protecting investors' interest.

## SPECIFIC COMMENTS

### **CFA Institute Key Comments on the Reproposal**

CFA Institute strongly supports the amendments repropose by the PCAOB that would improve the transparency of public company audits. Our support for these measures was previously articulated in our January 23, 2012 letter.

We summarize our views as follows:

#### *Disclosure of Engagement Partner & Engagement Quality Control Review Partner*

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.

We believe that disclosure of the engagement partner should be defined as the individual with the primary responsibility for the audit which 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 quality control review partner (i.e., second partner review) should be disclosed in addition to the engagement partner. The quality control review is an essential component of ensuring the integrity of the issued financial statements. This is especially important given the December 6, 2013 issuance of the PCAOB report: *Observations Related to the Implementation of the Auditing Standard on Engagement Quality Review* which highlighted significant audit deficiencies which should have been identified by the engagement quality control review partner.

The report noted that:

*In a number of the engagements, including approximately 39 percent of the 111 audits of seven large domestic firms in which the Inspections staff identified that the audit opinion was insufficiently supported, inspections staff concluded that the audit deficiency should have been identified by the engagement quality reviewer.*

Disclosing the engagement partner and the engagement quality control review partner as jointly responsible for the audit will elevate their personal accountability and further strengthen the quality of the audit. This disclosure should be no different from the entity's management associated with the financial statements (i.e., CEO, CFO, etc.) who sign in accordance with the requirements of Sarbanes-Oxley.

#### *Disclosure of Other Participants in the Audit*

We believe that 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) has responsibility for the audit of the financial statements.

*Disclosure Should Reside on the Face of the Audit Opinion*

We believe that the disclosure of the engagement partner, the quality control review partner and the other participants in the audit should reside in the audit opinion-not solely in some other filing. Accessibility of the information is a key quality control factor and investors and others should not be required to dig elsewhere to find the information. Opponents to disclosing the information on the face of the auditor's report often suggest that the PCAOB Annual Form 2 filing and/or the audit committee report is more appropriate and a convenient means of accessing the information. However, searching for the information on Form 2 requires multiple time consuming steps.

**CLOSING REMARKS**

In our opinion, the reproposal should be unanimously approved by the PCAOB given certain public comments made by the PCAOB Board and Staff and the widespread investor support. However, we remain cautious that opponents will persuade the PCAOB to allow this disclosure to be placed in an obscure and opaque regulatory filing. For the PCAOB to claim full success on this matter the disclosure should be transparent and easily accessible by placing the information directly in the auditor's report.

We thank the PCAOB for the opportunity to express our views on this proposal. If the PCAOB has questions or seek further 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](mailto:matthew.waldron@cfainstitute.org).

Sincerely,

*/s/Kurt N. Schacht*  
Kurt N. Schacht, JD, CFA  
Managing Director  
Standards & Financial Markets Integrity Division  
Council  
CFA Institute

*/s/Ashwinpaul Sondhi*  
Ashwinpaul Sondhi  
Chair  
Corporate Disclosure Policy

cc: CFA Institute Corporate Disclosure Policy Council

## STATEMENTS FROM THE PCAOB

**James R. Doty, Chairman**

- [AICPA National Conference](#) on SEC and PCAOB Developments (December 9, 2013)

*Investors have long asked for the names of engagement partners to be disclosed, in order to give them more information about the auditor.*

*The disclosure would require no new work by the auditor. Yet as with previous accountability reforms like it — such as Sarbanes-Oxley's requirement that CEOs and CFOs personally certify their company's financial statements and internal controls — it holds the promise of improving audit quality by sharpening the mind and reminding auditors of their responsibility to the public.*

*Indeed, over the years, the PCAOB's inspections and disciplinary matters have revealed that firms have not always given the critical task of engagement partner assignment the care it deserves. In many fields, disclosure — Justice Louis Brandeis called it "sunlight" — has given numerous fields and professions the information they need to see and then remedy a problem.*

*PCAOB inspectors have found that knowing the identity of a firm's engagement partners is a useful piece of data to assess the potential risk for deficient audits. PCAOB inspections are risk-based, and monitoring engagement partner audit work is one of our important indicators of risk. A number of our Part I findings — that is, the most significant audit deficiencies — are identified in audits where the partner assigned was one of the factors our staff used to make the selection.*

- [Investor Advisory Group Meeting](#) (October 16, 2013)

*I think that there is no simpler or less expensive reform that should and could be put in place than requiring the disclosure of the name of the partner on the engagement. I think nothing sharpens the mind more than a signature.*

- [Statement](#) on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits (December 4, 2013)

*The disclosure would require no new work by the auditor. Yet as with previous accountability reforms like it — such as Sarbanes-Oxley's requirement that CEOs and CFOs personally certify their company's financial statements and internal controls — it holds the promise of improving audit quality by sharpening the mind and reminding auditors of their responsibility to the public.*

*The capital markets know that audit quality is not all equal, and they are willing to pay more for reliable audits, in the form of reduced financing costs for companies that obtain such audits. The corollary is also true: markets demand a premium cost of capital from companies that present an audit report that is perceived to be less reliable.*

*This proposal is a way to use the motivating power of our markets to incentivize higher quality audits. But to do so, the markets need information.*

**Lewis H. Ferguson, Board Member**

- [Statement](#) on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits (December 4, 2013)

[Oral Remarks:](#)

*I look at this project as part of a larger effort by the PCAOB to cast more light on the audit process for the benefit of investors and other users of financial statements. Up to now, to a great extent, investors — in looking at the results and process of the audit -- have had to view it through a glass darkly, as the Bible says. There has been very little transparency into who performs the audit, what the audit work is, what the auditor thinks and what the auditor knows beyond that the financial statements are or are not fairly presented. Audit committees have had access to this information for many years, but investors -- who after all are the owners of the company -- do not have access to that information. I believe that this project -- along with the Board's revised auditor's reporting model proposal, our efforts to make our summary inspection findings more useful to the public, and the Board's outreach to investors and audit committees -- can provide information that investors may find useful.*

*One other thing I want to point out about the naming of the engagement partner is that it moves the United States into conformity with what is increasingly the practice in the rest of the world. The European Union already requires disclosures of the auditor's name and signature of the audit reports by the audit engagement partner. Australia requires the auditor to sign the auditor report. The International Auditing and Assurance Standards Board has a proposal out that would require disclosure in the audit report of the engagement partner's name. If that is adopted, as it is likely to be, that will become binding on the many countries around the world that will follow those standards. If we don't move in this way, the United States will be an outlier and I don't think we should be an outlier on an issue like this.*

[Written Remarks:](#)

*I believe that we should promote disclosure and increase the transparency of participants in the audit for the benefit of the investing public, and that doing so will enhance the operation of our capital markets. Today, the standard auditor's report tells readers of the report nothing about the identity of the participants in the audit beyond the name of the principal audit firm. Allowing users of financial statements to determine the identity of at least some of the participants in the audit may enhance their ability to assess the reliability of the audit report, and to be better informed when voting on whether to approve the selection of auditors.*

**Steven B. Harris, Board Member**

- [Statement](#) on the Reproposal on Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits (December 4, 2013)

*Investors and others have asserted that disclosure of the engagement partner's name will produce a heightened sense of accountability for the audit on his or her part, which will*

*lead to more robust audit behavior and higher quality audits. This is not surprising, given that personal accountability is a foundation of performance, in all walks of life.*

*As Justice Louis Brandeis stated "sunshine is the best disinfectant." I support these amendments because I believe investors and others deserve to know the names of the engagement partner and other firms participating in the audit. I also strongly believe that the increased transparency and sense of accountability on the part of the engagement partner will benefit investors, audit committees, and the market at large. I also agree with commenters that this enhanced sense of accountability will result in improved audit quality.*

**Martin F. Baumann, PCAOB Chief Auditor and Director of Professional Standards**

- [PCAOB Open Meeting](#) (December 4, 2013)

*As an engagement partner I'll share the fact that if I had to have my name identified or sign the audit report, I don't think that would have troubled me at all in the context of I felt I was doing the work in accordance with professional standards and I knew what the liability was. I'm just saying that part of this document includes the fact that I have experience in this regard and that I believe that such disclosures are appropriate.*

**PCAOB INVESTOR ADVISORY GROUP**  
(Meeting Transcript-October 16, 2014)

**Brandon Becker, Executive Vice President and Chief Legal Officer**  
**TIAA-CREF**

*Well, I do think that the signature makes a lot of sense, the same way we do it with mutual fund portfolio managers and the like where the SEC has been much more aggressive. I discount the liability issues for the various and other sundry reasons.*

**Robert M. Tarola, President**  
**Right Advisory LLC**

*I am in favor of transparency of the signer of the audit opinion. I think that there should be no difference between that signature and that of a CFO on the financial statements.*

**Judge Stanley Sporkin, Retired**

*I agree with Chairman Doty's view on the signature on the audit. I think that the person who has done it has got to sign it. I think that should be a no-brainer.*

**Lynn E. Turner, Managing Director**  
**LitiNomics and former SEC Chief Accountant**

*Getting the auditor's name, I think, would be very good. In fact, I'm shocked that this thing's been debated for 40 years and finally it looks like maybe someone will actually do something about it.*

*In the state of Colorado, engineers and architects, you can add those to the list of people who have to sign in their own personal name, in addition to the CPAs who give expert reports, the boards and all those people. In fact, when you come down it, the auditors signing these audit reports are about the only people that don't have to put their name down. Everyone else does. And they're the only ones, and there's no good reason why they should be given special privilege whatsoever.*

**Damon A. Silvers, Director of Policy and Special Counsel**  
**AFL-CIO**

*I again want to speak to this question of identifying the partner. Like Lynn, I mean I've been on many bodies that have advised doing this over a period of years and it just continues to surprise me it's not done, particularly against the context of, for example, the fact that individual attorneys sign SEC filings. The fact that in general we demand a great deal of individual disclosure in disclosure systems generally. This is true with respect to boards of directors, to corporate executives. Corporate executives have to individually sign financial statements.*

**Joseph V. Carcello, Ernst & Young Professor, Department of Accounting and Information Management, and Co-Founder and Director of Research, Corporate Governance Center**  
**University of Tennessee**

*In terms of auditor transparency, there's a growing body of literature that finds that, in fact, identification or signature is helpful. Much of that literature the Board has seen. As others have already said, CEOs, CFOs, chief accounting officers have certified Ks and other documents for years without huge problems. Most of the developed world require the partner to sign or be identified, virtually all of Europe, China, Australia. Has not been a problem. And I'll close with another quote from a very bright person. "Common human experience*



*suggests that when an individual is publicly identified with a particular activity that identification usually leads to a higher degree of care and focus." I agree.*

**Mercer E. Bullard, Associate Professor of Law and Jessie D. Puckett, Jr., Professor, University of Mississippi School of Law; Vice President, Plancorp, LLC; Founder and President, Fund Democracy, Inc.**

*You have the SEC now saying it's not going to take no-admit, no-deny settlements anymore and pointing out it's going to go after individuals. And this is precisely what we need to do. We need to make individuals responsible, because in this sense corporations are not people. Corporations can't take action without an individual having taken that action. So I think that putting the name and the face on the action will have this behavioral modification effect, it also will be the kind of liability risk that you want.*

**Norman J. Harrison, Senior Managing Director  
FTI Consulting**

*Many of us in this room have at one point or another in our lives served as an expert witness in civil litigation. And it's not a perfect analogy but it's close, where we've been asked to examine a body of evidence and to apply judgment and experience to it and render an opinion on one or more issues. And certainly under the Federal Rules of Evidence we sign the reports, we don't sign our firms' name to the reports. And then we are often challenged as to whether we possess the requisite expertise or not and a judge has to decide and we're deposed and there is sometimes an exhausting level of review and transparency disclosure on the contents of our report. I'm not suggesting that same level of increase should apply here, but again it goes back to this notion of when someone holds themselves out as a professional it's hard to find many other examples where the individual's name isn't on it.*

**Barbara L. Roper, Director of Investor Protection  
Consumer Federation of America**

*People speak differently when they're making an anonymous comment in the blogs or when their name is attached to a comment. We know in a variety of context that this does affect people's conduct, and it affects people's conduct, I think, in this way precisely the way we want to affect it, which is to make them think more seriously about just exactly how comfortable they are with the opinion they're rendering. And so I mean, I think the benefits of this proposal are self-evident. We've been talking about it for years, and I think, you know, I would strongly support the Board moving forward in that area.*

**Anne Simpson, Senior Portfolio Manager, Global Equity  
California Public Employees' Retirement System (CalPERS)**

*I agree with what's been said that these corporate forms, be they joint stock companies or partnerships, the corporate forms have a lot of purposes. But these are not moral agents and cannot be held. So whichever Lord Chief Justice, way back when, said, you know, corporations have neither a body to kick nor a soul to condemn to eternal damnation, at that point we're then back to people. And whatever has been said about political donations and political speech about corporations being persons is nonsense. So if we want to change behavior, the corporation is not something that will behave differently. It's people that will behave differently, and behavior does change under observation.*