



**STANDARD & POOR'S
RATINGS SERVICES**

McGRAW HILL FINANCIAL

November 21, 2013

Public Company Accounting Oversight Board
1666 K Street
Washington, DC 20006

International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, NY 10017

Via upload to: www.pcaobus.org and www.iaasb.org

Re: PCAOB Rulemaking, Docket Matter No. 034, “The Auditor's Report On An Audit Of Financial Statements When The Auditor Expresses An Unqualified Opinion” and “The Auditor's Responsibilities Regarding Other Information In Certain Documents Containing Audited Financial Statements And The Related Auditor's Report,” the “Proposed Auditing Standards”

IAASB Exposure Draft, “Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs),” the “Exposure Draft”

Dear Sir/Madam:

Standard & Poor's Ratings Services appreciates the opportunity to provide the Public Company Accounting Oversight Board (PCAOB) and the International Auditing and Assurance Standards Board (IAASB) (together the “Boards”) comments on their exposure drafts on changes to the auditor's reporting model.

The views expressed in this letter represent those of Standard & Poor's Ratings Services and do not address, nor do we intend them to address, the views of any other affiliate or division of Standard & Poor's Financial Services, LLC. We intend our comments to address the analytical needs and expectations of our credit analysts.¹

¹ The opinions stated herein are intended to represent Standard & Poor's Ratings Services' views. Our current ratings criteria are not affected by our comments on the exposure drafts.

Standard & Poor's Ratings Services wholly supports the efforts of the Boards to increase the value of the audit and the auditor's report for analysts, investors, and other financial statement users. We believe the improvements the Boards propose will add value to the audit, the auditor's report, and the related financial statements by disclosing potentially useful information specific to each entity that will help inform our analysis on issues identified in the audit that were significant to the auditor. This improved communication about the audit will likely enhance audit credibility and quality beyond the current pass-fail opinion, increasing usefulness and transparency for credit analysts and other financial statement users.

Highlights of our letter include:

- We support the Boards' work to improve the auditor's report by providing additional information specific to each entity.
- We encourage the PCAOB and IAASB to develop standards consistent with each other.
- In addition to the proposals, we believe the auditor's report should evaluate and report on the appropriateness of accounting practices companies applied when alternatives were available.
- We also favor an improved format and structure of the auditor's report for more effective delivery of key messages. For example, the use of titles, headings, and subheadings is a good way to organize and identify sections of the auditor's report.

An Enhanced Auditor's Reporting Model Is Favorable

The auditor's report is how auditors communicate their work to financial statement users, and those financial statements are our primary source of information regarding an enterprise's current and past financial condition and performance. A company's financial statements are the starting point of our financial analysis. Our analysis of a company's financial statements begins with a review of the accounting features to determine whether the data in the statements accurately measure a company's performance and position relative to its peers and the larger universe of corporate entities. The analysis of footnote disclosures—e.g., detailed schedules, contingent liabilities, and assumptions used—can provide a better understanding of an enterprise's financial risks.

The auditor's work and report are clearly valuable in our analysis. We rely on the auditor's report, and are skeptical in its absence or qualification. As financial statement users, we believe we will benefit from information beyond the assurance currently provided by the pass-fail auditor's opinion. While the auditor's report will maintain its pass-fail element, we believe the expanded disclosures about critical or key audit matters will increase the usefulness of the auditor's report and enhance audit discipline. The PCAOB's critical audit matters (CAM) and the IAASB's key audit matters (KAM) should provide clear and concise entity-specific information; this is how the proposed auditor's report will likely provide significant value for users.

The CAMs and KAMs potentially will include important matters communicated to the audit committee or those charged with governance, respectively. We believe the CAMs and KAMs should include specific descriptions of how the auditor addressed each matter, and not be boilerplate language. For example, we emphasize the importance of the auditor addressing management's specific policies, practices, and processes used to: account for significant unusual transactions; determine highly subjective significant assumptions applied in critical accounting estimates; and present financial statements and related disclosures. In our view, by communicating such

information in CAMs and KAMs, the auditor's report would make desirable strides towards increased usefulness and transparency for financial statement users.

With the information and understanding gained through the audit process, the auditor has the ability to provide entity-specific information and insight beyond the binary pass-fail opinion in areas of significant risks, judgments, estimates, and assumptions. This information would be especially meaningful to credit analysts and other financial statement users if it provides relevant information that helps to better understand financial risks, including future cash flows and prospects. Financial statements are increasingly complex, so we believe users will benefit from an independent and objective view of areas where preparers applied judgments and prepared estimates, and how auditors were able to obtain sufficient, appropriate audit evidence.

Develop Consistent Standards For The Auditor's Report

As a global rating agency, and users of financial statements across the globe, we ideally would like to see a fully converged auditor reporting model. We appreciate that the Boards are concurrently developing standards to improve the auditor's report and that they are monitoring each other's progress. We favor the many similarities between the PCAOB and IAASB projects, such as bringing transparency to judgmental areas and the rationale behind the considerations made. However, quite importantly, the Boards define the criteria to determine CAMs and KAMs differently. We believe this proposed addition to the auditor's report is most relevant to financial statement users, and believe the Boards should avoid the possibility of different standards that could generate different audit matters reported simply because of the definitional distinctions.

We urge the Boards to strive for greater consistency, not only in the definitions, but also in the disclosure requirements. In some areas, one proposal may be more developed than the other (e.g., the PCAOB's Proposed Auditing Standards has fully developed the auditor's responsibilities regarding "other information" included with the audited financial statements, whereas the IAASB included a placeholder with requirements to be developed). On the other hand, the IAASB's Exposure Draft robustly explains and discloses the auditor's responsibilities for the audit. We urge the Boards to use the best from each other's work and to develop consistent requirements for the auditor's report: we do not believe the lack of harmony in auditor's reports will aid global reporting and analysis, and it may lead to varying levels of regulatory enforcement.

Evaluate Alternative Accounting Practices

When accounting standards provide alternative accounting practices, we believe the enterprise's accounting choices should best reflect the underlying economics of its business transactions. An enterprise's accounting choices should depict information in the financial statements that is consistent with the intent and the economic drivers of significant transactions of the business, for example, the effect of its asset-liability management models, inventory methods, and construction contract accounting. We recommend the Boards consider auditing standards that would provide financial statement users with auditor views on the symmetries between the economic basis and accounting depiction of transactions when the enterprise has made accounting choices. Currently, as part of an audit, the auditor evaluates the appropriateness of the accounting policies the company used in the context of an established materiality. We believe the auditor's report should go further by concluding whether the accounting policies used are the most appropriate (not just in accordance with the accounting standard), in light of the entity's specific circumstances, and that they best

reflect economic reality of the company. This disclosure should also include areas in which the accounting--while appropriate--did not fully meet the standard-setting intent or masked the economics (e.g., repo 105, synthetic leases, and other “unique” arrangements). We believe that evaluating and reporting on the quality of accounting practices would likely lead to entities selecting more relevant accounting policies and, consequently, to greater consistency in financial reporting.

Format And Headings

The audit report format is important to ensure that auditors can communicate key messages effectively. Because a well-defined format and structure for the auditor’s report will help users, we believe the Boards should define the format and structure. The use of titles, headings, and subheadings, as required by the IAASB’s Exposure Draft, is an excellent example of identifying the purpose of each section and paragraph within the auditor’s report.

Reporting On “Other Information”

We support potentially expanding auditors’ responsibilities to address evaluating any “other information” included with, but outside the financial statements, for material inconsistencies or misstatements. Further, we believe financial reporting is negatively affected if companies provide material to investors through other means (e.g., investor presentations) that is inconsistent with the audited financial statements.

Going Concern Disclosures

The going concern assumption is inherent in every audit and justifies valuing assets and liabilities using historical cost; otherwise, a liquidation (or fair value) perspective should be employed. Nevertheless, following the financial crisis, the going concern issue has become a greater worry, and accordingly, addressing it explicitly in the audit report may add accountability and comfort for this aspect of the audit.

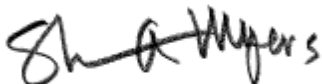
Private- Vs. Public-Entity Auditor’s Reports

We believe financial statement users of public- and private-sector reports will better understand the financial statements and audit results if the auditor’s reports are more informative. In our credit analysis, we seek the same level of information from all entities, whether large or small, public or private, not-for-profits or governments. Because the PCAOB standards do not apply to private entities in the U.S., we encourage the American Institute of Certified Public Accountants to adopt auditor reporting model standards for private entities that are similar to the PCAOB and IAASB proposals.

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We thank you for the opportunity to provide our comments, and we would be pleased to discuss our views with members of the Boards or your staffs. If you have any questions or require additional information, please contact the undersigned.

Very truly yours,

Handwritten signature of Sherman A. Myers in black ink.

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