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Office of the Secretary
PCAOB
1666 K Street NW
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Re: PCAOB Rulemaking Docket Matter No. 034

Dear Sir or Madam:

As a member of the financial community and investor, I am in agreement with the Board's proposal that the following auditing standards will likely be beneficial particularly in firm and financial statement analysis.

1) The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion

2) The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report

While I agree that these amendments will be advantageous to investors, they should be executed with a degree of caution so that auditor opinions maintain their level of objectivity and are not tainted by subjective rationale. Requiring auditors to provide more detail of their unqualified opinions can quite easily push the appearance of the report into the realm of subjectivity and consequently stray from the view as an unbiased opinion. Following is a discussion of my thoughts on both of these new auditing standards.

The existing auditor report is not useful for investors beyond the confirmation of whether the opinion is unqualified. The general 'boilerplate' type language is likely not even read by members of the financial community, so requiring auditor's to supplement the pass/fail recommendation with backup is a logical amendment. In particular I believe the 'Critical Audit Matters' section will help investors understand what actually went into the audit, which is a process that they are likely blind to at this point. Highlighting areas of difficulty can help investors pursue their own analysis of the areas of concern and potentially help them make better investment decisions. Additionally, and possibly more importantly, this may motivate companies to avoid confusing or irrational accounting practices which currently may be flying under the radar but would be exposed under this new reporting standard. For example, stock analysts currently have no insight into what auditors found difficult during an audit, or where there had to be subjective judgment. Increasing the level of transparency may potentially have an impact on stock analyst recommendations which ultimately finds its way back to the way the company is reporting its financials. Overall, having multiple eyes analyzing a firm's audit is more likely to unravel areas of concern as opposed to a single and secret auditor opinion.

Two specific aspects of this proposed amendment which I also feel will be valuable to investors and the financial community are the sections detailing the auditor's experience as well as the 'other information' portion. Accepting an auditor's opinion as valid could have a lot to do with that auditor's experience, given information about their experience is provided. At this point users of financial statements accept the auditor's opinion and have no idea how experienced or knowledgeable the auditor is. This amendment will require auditors to state their tenure so investors will be aware of how much experience the auditor has analyzing the specific company's financials. Similar to when selecting a doctor, individuals likely look at the doctor's experience (years in occupation, school, etc.). I believe the same process would be helpful in analyzing financials. The 'other information' section also seems helpful as it will bring to light any issues outside of the financial statements which may go overlooked otherwise. Things such as material misstatements in the manager discussion and analysis will be addressed by the auditors, which could be extremely helpful to investors who are not so experienced at reading the actual financial statements and focus more on other information.

While this is a logical step in financial reporting, I believe it comes with the risk of portraying auditors outside of their role as providers of unbiased opinions, and could potentially lead to backlash from the financial community. Currently these auditors experience issues during audits that require a degree of judgment or subjectivity. They are not required to disclose this information which, from the perspective of investors simply looking to see if the opinion is unqualified, maintains the auditor's reputation as a third party and independent analyst. With the proposed reporting amendment, investors will be able to see where these auditors applied subjective rationale which these investors may not necessarily agree with. In addition, companies may also disagree with the rationale which could lead to challenges from the financial community. Depending on how much power or influence these community members and firms have, there could be lobbying and regulatory action to amend the way audits are done which may or may not be beneficial to the community as a whole. Of course challenges and amendments to the subjectivity of auditors which enhance the integrity and usefulness of auditor reports would be considered improvements, but not all challenges are improvements when there are multiple special interest groups with varying degrees of power over regulation. Therefore while I feel this type of transparency is important, it could also lead to an array of new issues that the PCAOB and regulators should be prepared to deal with.

While I do understand the resistance from auditors in regards to this reporting amendment, I believe this may eventually make the jobs of auditors easier as well. Currently there is backlash from these professionals as they feel the explanation of financial statements is a job for the firm and its management, and not the auditors. However as an investor and member of the broader financial community, I am well aware that firms and their management often have an inclination to hide tricky items within their financial statements. Therefore there is a misalignment of interests between investors and firms, and auditors are ultimately the only intermediaries that can help to alleviate this issue of information asymmetry. Firm management typically has to work closely with auditors so they are typically aware of what items the auditor has significant issues with. However, there is no incentive on the firm's part to make life easier for the auditor if the process of working through these tricky issues will never be publicized to investors. With the rollout of this reporting amendment, management will know that their confusing or suspicious activity is likely going to end up in the auditor's report. This creates an incentive for the firms to keep their books clean, and eventually makes life easier for auditors.

Sincerely,

Faraz Saleem