August 15, 2016

Office of the Secretary
PCAOB
1666 K Street, NW
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comments@pcaobus.org

Re: PCAOB Release No. 2016-003, Proposed auditing standard: *The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards***.** PCAOB Rulemaking Docket Matter No. 34

Dear Members of the Board:

The Global Financial Institutions ("GFI") Accounting Committee and the Asset Management Accounting Policy Committee, both of the Securities Industry and Financial Markets Association ("SIFMA"), appreciate the opportunity to provide comments on the Public Company Accounting Oversight Board's ("PCAOB's" or the "Board's") revisions to the proposed auditing standard, *The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards* ("The Re-proposal").

We support the PCAOB's objective to improve investor confidence and understanding of the audit process through enhanced auditor communications. We also applaud the Board's efforts to incorporate feedback on the original proposal by including the consideration of materiality in the identification of a critical audit matter ("CAM") and attempting to limit the auditor's ability to disclose original information. Additionally, we agree with the need to exclude extensively regulated entities such as broker-dealers and investment companies. However, we remain unconvinced that the changes in the Re-proposal fully address respondents' concerns to the previous proposal. We do not believe the disclosure of CAMs provides "value-relevant" information beyond what is already publicly available to users, and continue to have concerns that CAMs will almost certainly add significant cost to the audit, create operational challenges and potential legal issues, and could cause discord between management and the auditor. Therefore, in the penultimate paragraph of our comment letter we suggest an alternative approach.

We support the PCAOB's proposal to exclude broker-dealers for reasons regarding ownership and reporting characteristics, in addition to the recently updated reporting and auditing requirements for broker-dealers from both the SEC and the PCAOB. However, we disagree with the PCAOB's retention of the ability for auditors to "voluntarily" include CAM requirements for broker-dealers without justification. Retaining this unusual voluntary option for broker-dealers results in lack of regulatory clarity and will subject the broker-dealer industry to diverse audit practices. Further, the ambiguity could lead to auditors conservatively choosing to include CAMs in their reports to avoid the risk that their judgment would be challenged. As such, this may remove the voluntary nature of the option in practice, which would have the effect of overriding the PCAOB's original intent of the broker-dealer exclusion. Therefore, we strongly recommend that the PCAOB eliminate this voluntary option.

Additionally, to ensure that audit requirements across the industry are consistent (including the costs and operational efforts), we also believe that it would be more appropriate to exclude all broker-dealers, including those required to file audited financial statements under Section 13 or 15(d) of the Exchange Act ("issuer broker-dealers"). Further, given that the PCAOB notes that it is not currently aware of any issuer broker-dealers, we suggest that a conclusion on application of the proposed requirements for these entities be deferred until the PCAOB has a significant enough population to analyze the entities as thoughtfully as it has done for all other broker-dealers.

We agree with the PCAOB's exclusions for investment companies; however, we are concerned that investment companies, similar to broker-dealers, would also be subject to voluntary application of this auditing standard.

We support the proposal to move the opinion paragraph to the beginning of the report as we believe that most readers of auditor's reports are primarily interested in whether a company has received an unqualified opinion from its auditor.

Notwithstanding these points, we are also concerned that auditors might be economically and reputationally incentivized to exercise an overabundance of caution relative to the identification and disclosure of CAMs. Although the auditor is not expected to provide information about the company that has not already been made publicly available, such information may be provided by the auditor if it is necessary to describe the principal considerations used to determine that a matter is a CAM or how the CAM was addressed in the audit[1]. This exception language, along with the requirement to reference management's existing disclosures, provides auditors with significant leverage to compel disclosure in notes to financial statements of information that may not otherwise be required or considered necessary by management. This additional leverage by the audit firm may result in significant costs as management works with the auditors to identify, evaluate, debate and ultimately determine whether to disclose any CAMs.

While we agree with the requirement to apply a materiality threshold to the identification and disclosure of CAMs, it is likely to have little effect as long as existing audit firm materiality thresholds for balance sheet and income statement items remain the same. Moreover, given that matters that are material to the financial statements should already be disclosed by management in the notes to the financial statements, management's discussion and analysis (MD&A) or both, we question how

[1] Note 2 to paragraph .14 of Proposed AS 3101 included in Appendix 1 to the Re-proposal (page A1-9)

redundant disclosure in the auditor's report will provide decision useful information to users of the financial statement.

Given the feedback received by the Board on the original proposal and the limited empirical evidence to support expanded auditor reporting, we question whether there is sufficient basis to require CAMs. The Board noted in the Re-proposal that it is unsure of the value of CAMs to users, acknowledging that research on expanded auditor reporting is limited and that results are *ambiguous* as to whether expanded reporting would provide new information beyond what is already available in the financial statements. As such, we do not understand the Board's justification for the Re-proposal based on the hope that users will find information useful once they are provided with it. We strongly encourage the Board to study this matter further and gather more empirical evidence on the usefulness and the cost-benefit implications of expanded auditor reporting before concluding whether such expanded auditor reporting is warranted.

We are also concerned that the emphasis on the CAM disclosures may imply that the auditor is providing assurance on individual components of the financial statements, rather than the financial statements taken as a whole. Additionally, the Re-proposal's example disclosure related to the allowance for loan losses for a component of the loan portfolio appears to include information that would not normally be required in financial statement disclosures; rather it appears to contain information which, if material, would normally be disclosed in MD&A. Lastly, it is unclear what incremental value users will derive from the description of procedures performed by the auditors, which will be by necessity boiler plate, (e.g., read legal contracts, tested assumptions, and used specialists). It is unclear how this information will help users better analyze financial statements.

Instead of the disclosure of CAMs, we suggest the Board consider an alternative approach that will draw users' attention in the auditors' report to significant accounting policies and estimates in the financial statements and MD&A. This could be accomplished by referencing the disclosure of these items (i.e., location and page number), together with a statement indicating that the auditor's report should be read in conjunction with management's disclosures of significant accounting policies and estimates. This approach would avoid the inference that the auditor is providing assurance on separate components of the financial statements and would correspond with areas that receive the most attention from auditors during the audit.

SIFMA's GFI Accounting Committee and Asset Management Accounting Policy Committee would like to thank the PCAOB for the opportunity to provide feedback on this Re-proposal. We would be pleased to discuss our comments or answers to any questions that may arise. Feel free to contact either Tim Bridges at 212-902-7052 or tim.bridges@gs.com or Israel Snow at 212-357-5730 or israel.snow@gs.com.

Regards,

Tim Bridges

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