



Invested in America

December 10, 2013

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006-2803
comments@pcaobus.org

Re: PCAOB Release no. 2013-005, PCAOB Rulemaking Docket Matter No. 34

Dear Members of the Board:

The Global Financial Institutions Accounting Committee of the Securities Industry and Financial Markets Association (“SIFMA”)¹ appreciates the opportunity to provide comments on the Public Company Accounting Oversight Board’s (“PCAOB’s” or the “Board’s”) proposed auditing standards; *The auditor’s report on an audit of financial statements when the auditor expresses an unqualified opinion*; *The auditor’s responsibilities regarding other information in certain documents containing audited financial statements and the related auditor’s report*; and *Related amendments to PCAOB standards* (“Proposed Standards”).

We support the PCAOB’s objective to enhance auditor communications and to provide useful information to the users of financial statements, as these goals enhance the trust and confidence within the financial markets which rely upon these financial statements. However, we believe that the Proposed Standards will not achieve these objectives and, in fact may have a negative impact on audit quality.

As described below, we have significant concerns about the disclosure of critical audit matters and how they will be interpreted by users, and on the new responsibilities of auditors to evaluate other information presented outside of the audited financial statements.

We believe the Proposed Standards would cause significant changes in certain current roles. For example, Audit Committees would become involved in a level of detail that could be construed as management rather than oversight. Also, sections of the report that are currently used by Investor Relations to communicate messages (for example, the President’s Letter) would become subject to negotiation with the auditor.

¹ SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association. For more information, visit www.sifma.org.
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The increased time and effort to prepare, review and obtain approval for audit report disclosures, required by the Proposed Standards, will either increase the current time lag between the period end date and the reporting date, or will take focus away from the quality of the audit and the audit conclusions reached, or on the adequacy of the company's financial disclosures – the more important responsibilities of the auditor.

The changes that would occur as a result of adoption the Proposed Standard are so significant that we suggest the Board view this current exposure draft more as a discussion paper. After considering these comments and the many similar comments we believe interested parties will submit, the Board should expose a new draft for comment, as we believe there are many details that merit comment.

In addition to the specific comments below, we are concerned that the Proposed Standards represent a potentially substantial increase in the scope of the PCAOB's mission to oversee the audits of public companies. Regulations as to what information must be audited are set forth in securities laws (for public companies), and are the domain of the SEC. We believe the proposed requirement to expand the auditor's responsibility to report on "other information" goes beyond the PCAOB's mandate of establishing audit standards, and is a first step on the path towards a requirement for an audit opinion on MD&A and other information prepared by companies. We believe this is inconsistent with the spirit, if not necessarily the letter, of the mandate of the PCAOB's mission. If the proposed requirement is to be put in place, it should originate with the appropriate regulatory institution, namely the SEC and not the PCAOB. Without doing so, a new proposed regulatory requirement would not be subject to the SEC's extensive due process requirements.

We have focused our current comments on the most significant concerns rather than provide a detailed response to questions or a paragraph-by-paragraph review.

Critical Audit Matters

We are concerned that significant judgment will be required to determine if an item should be disclosed as a critical audit matter ("CAM"), which could lead to inconsistent application and insufficient comparability of auditor reports among industry peers. We are also concerned with how the average user of the financial statements will interpret the meaning of CAMs disclosed in the audit opinion. The requirement for auditors to report on CAMs already exists, though the reporting is to the Board of Directors through the Audit Committee. These representatives have a clear responsibility to understand the results of the audit and oversee the decisions about disclosures and, in order to fulfill this responsibility, there is a requirement for at least one "financial expert" on an audit committee. We therefore believe that the interests of financial statement users are adequately represented and protected, and we question the utility of providing disclosure of CAMs more broadly, especially when there is (and can be) no such financial literacy requirement for users in general.

More specifically, the disclosure of CAMs in the audit opinion could inappropriately:

- cast doubt over the quality of the financial statements, the audit procedures, or both. If the auditor ultimately issues an unqualified (or “clean”) opinion, it means the issues raised were appropriately resolved. We are concerned that this outcome will not be clearly understood by users of financial statements.
- dilute the meaning and power of a “pass/fail” audit opinion covering the entire financial statements by providing a series of different opinions on specific matters; highlighted items will be interpreted as deficiencies or weaknesses in financial reporting. We see this as a direct follow-on from the previous comment.
- provide information in the financial statements for the first time. Financial statements already include complex and detailed disclosures, often over hundreds of pages, to provide insight into management’s view of critical accounting policies and estimates, business performance and trends and various financial and operating risks. We do not believe it is appropriate for auditors to disclose new information within the audit opinion that is not already provided elsewhere in the financial report. Additionally, if the information is already provided in the financial statements, we do not believe it needs to be repeated again in the audit opinion.
- increase the “expectations gap” between what an auditor is required to do and what an auditor is expected to do. We believe it will be exceedingly difficult for a reader to understand the decision-making process for including or omitting items from the list of CAMs, and that the comments could be construed by readers as opinions or disclaimers on specific elements of the financial statements, or as a qualified opinion regardless of the language of the actual opinion paragraphs. In addition, we believe the concerns auditors will have with the proposal will lead to the emergence of generic language used in all audit opinions (i.e., “boiler plate”), diminishing the usefulness of the additional disclosure. For example, within financial institutions, the valuation of level 3 assets will be a significant and highly judgemental aspect of any audit, and will be for all financial institutions. Including this in the audit report would not add any value to the audit report, particularly if the same disclosure is made by every financial institution.
- require additional audit procedures and effort. The Proposed Standards do not explicitly require additional procedures; however, it is highly likely that the enhanced audit opinion will require significant additional effort from auditors, preparers and audit committees, and during the busiest times of the year. As noted above, auditors already report this type of information to the Audit Committee, but including such comments in a publicly available report will inevitably cause an auditor to perform additional procedures and to increase the search for matters to report. For preparers, this additional cost will manifest itself both through increased audit fees as well as through increased internal resource requirements, calling into question whether the limited benefits will outweigh the added costs.

Given the concerns noted above, we cannot support the Board’s proposal.

Reporting on Other Information

We agree that users would benefit from a clear and transparent disclosure of the auditor's responsibilities for the other information presented along with the audited financial statements. However, we are concerned that the Proposed Standards increase, rather than clarify, the auditor's responsibility and performance requirements for the other information, specifically the requirement to "evaluate" other information rather than "consider" other information. This is particularly troubling for forward-looking information included in the financial reports as we do not believe it is the role of the auditors, nor will they have the expertise, to evaluate management's forward-looking statements. Similar to the CAMs above, we believe this requirement will increase the "expectations gap" between what an auditor is required to do and what an auditor is expected to do, as users will not be able to distinguish between the information that the auditor has evaluated as being consistent with information obtained as part of the audit and information that is wholly outside of the audit scope.

The Proposed Standard requires a statement that, based on the evaluation of other information, the auditor (1) has not identified a material inconsistency or a material misstatement of fact in the other information, or (2) has identified a material inconsistency. The evaluation of "materiality" in regards to certain other information (especially that which is not directly related to the audited financial statements) may be difficult to apply in practice and cause inconsistencies in application.

Given this proposed increase in auditor responsibility and performance requirements, the cost of audits is likely to increase if auditors are now required to search the full audit file to evaluate every statement made by management outside of the audited financial statements. Although this cost cannot be definitively quantified, we do not believe this increased cost is worth the limited benefit provided by the Proposed Standards.

Given the above, we are concerned that the additional auditor responsibilities and performance requirements may lead to less disclosure, particularly as it relates to other information that cannot be sourced systematically and is not subject to the same level of controls and review as the data presented in the financial statements. For example, management may want to disclose the existence of cost savings programs along with anticipated cost savings and costs to achieve over time. Management could believe this type of information is relevant to investors, but if the estimates are subject to audit procedures or review, it might be easier to refrain from the extra disclosure. In fact, such items may be based on budgets and expectations and they are unlikely to be auditable at all. Additionally, this information is often provided as insight into management's analysis and expectations, and is not objectively verifiable, making it very difficult for the auditors to evaluate the information effectively. The accuracy and reasonableness of this information should remain the responsibility of management.

Auditor Tenure

We do not object to the requirement to disclose auditor tenure in the audit report, but we believe it is not necessary because we reject the assumption that auditor tenure and audit quality are related.

We hope you find our comments helpful. Should you have any questions or require further information concerning any of the matters discussed in this letter, please do not hesitate to contact me (mscucci@sifma.org; 212-313-1331).

Very truly yours,

A handwritten signature in black ink that reads "Mary Kay Scucci". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Mary Kay Scucci, PhD, CPA
Managing Director
SIFMA

cc:

PCAOB

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