



**Liberty Mutual Group**

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September 30, 2011

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 34

Liberty Mutual Group (“LMG” or “the Company”) is a diversified global insurer and the sixth largest global property and casualty insurer in the world. As of June 30, 2011, LMG has approximately \$116 billion in consolidated assets and \$98 billion in consolidated liabilities. Our consolidated revenues were approximately \$33 billion for the year ended December 31, 2010.

We appreciate the opportunity to provide the Public Company Accounting Oversight Board (“PCAOB”) with our comments pertaining to Rulemaking Docket No. 34, *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements* (“the Concept Release”).

## **GENERAL COMMENTS**

First and foremost, we respect the time and effort the PCAOB and its Staff has put into consideration and development of the Concept Release and their desire for improving and increasing the transparency and relevance of the auditor’s report on financial statements.

We do not support the alternative proposed for an Auditor’s Discussion and Analysis (“AD&A”). Further examples and clarification has been provided below which indicate that this alternative could cause unnecessary conflict between management and the auditors, stifle communications, hinder audit quality, and send inconsistent messages to investors. We also do not support the alternative proposed that would require auditors to provide assurance on information outside of the financial statements. This would lead to increased time and money on the part of management, as well as the auditors. Confidentiality also arises as a concern with both proposed alternatives.

If the PCAOB concludes additional information is needed for the users of the financial statements, then we would support the alternatives that would require the use of emphasis paragraphs and/or clarification within the standard auditor's report. We feel that these alternatives would accomplish the PCAOB's objective to create more transparency and improve disclosures within the auditor's report, while not jeopardizing the relationship or adding unnecessary costs to the audit.

We appreciate the complexity of the project and would like to raise the following observations and recommendations in response to specific questions on the proposed alternatives for your consideration.

### **Response to Question 5**

We do not support an AD&A as an alternative. Based on the points discussed within the Concept Release, we believe that implementing a requirement for an AD&A would potentially create unnecessary conflict between management and the auditors as a result of the subjective nature of the AD&A.

For example, the Concept Release notes that the AD&A would include what is referred to as "close calls." The documentation of these would involve significant discussion regarding difficult issues between management and the auditors. "Close calls" are usually debated during the course of the audit. Many hours are spent between management and the auditors to discuss such issues, and therefore, they have been resolved once the report is issued. The resolution or mutual agreement around such issues would indicate that it is no longer necessary to display the topic as a discussion point within the report. More definition needs to be placed around what would be classified as a "close call." Without a clear definition, "close calls" could encompass a variety of issues; furthermore, disclosure of these items could cause tension between the auditors and management, as having "close calls" disclosed within the auditor's report could lead to confusion and mixed messages for investors and ultimately have a negative impact on the market. Including "close calls" would not create any more transparency nor would it provide more relevance to the readers of the financial statements.

A similar instance in which conflict may arise would be related to the suggestion of highlighting within the AD&A those areas where the auditor felt that management could have applied different accounting or disclosures. The purpose of the auditor's report is to opine on the financial statements including the presentation and disclosures. It is contradictory to expect the auditor to opine on the financial statements and then include in the AD&A information on where they felt management could have presented their information differently. Again, this alternative could result in confusion for the users of the financial statements and a poor reaction by investors and analysts.

For those companies who produce an MD&A, it is important to consider the potential differences which could arise between this document and an AD&A. The auditor discussion about the financial statements could differ from disclosures that management provides and therefore might not convey a consistent communication to investors. Management would strongly insist that

there is consistency between the two documents. Resolving discrepancies could require significant time to be spent between management and the auditors to ensure agreement has been reached on all topics discussed, thus increasing the cost to perform an audit. If for any reason the MD&A and the AD&A do not align, this inconsistent communication could again result in confusion and could lead to an unwarranted negative market reaction.

Additionally, we are concerned about whether the users would have the appropriate context for the information. Typically, auditors' communications are prepared with the expectation of a privileged dialogue with the audit committee. Any additional context and perspectives that are communicated are not intended to be shared with users.

### **Response to Questions 6 & 7**

We believe that the audit information recommended to be included within the AD&A could pose a concern for management based on confidentiality issues. The information in the audit work papers is the property of the Company, and therefore, any information shared in the AD&A would have to be confirmed by management. Certain proprietary information is provided to the auditors during the audit, which is sensitive to the Company's competitive industry position and should not be disclosed to the public.

Additionally, the Company believes that including information about the auditor's views on the Company's financial statements based on the audit, such as management's judgments and estimates, could pose a confidentiality concern. As an insurance company, there is significant judgment used in preparing certain financial statement line items, specifically loss reserves. Disclosure of reserve ranges, or potential discussion of the reserve strength, are examples of metrics that could impact the Company's competitive position. Any potential for disclosure of these types of items would stifle the open-communication relationship between the management team and the auditors and could result in unnecessary tension between the two.

### **Response to Question 8**

If the AD&A were to be implemented, we feel that a standard template must be created for all auditors to use in completing this document. The template should clearly define the information to be included in the document, who is to complete the document, and whether it would require a formal sign off. If a standard template is not implemented, the Company feels that the preparation of a document such as what has been described would result in added time to and increased cost for the audit and could lead to significant issues between the Company and the auditor for the inclusion of subjective disclosures.

### **Response to Question 18**

The PCAOB has noted in the Concept Release that investors and analysts are requesting that there be more transparency and supplemental discussion in the auditor's report to provide additional clarity around the financial statements. In response to this, the Company supports the alternative that would require and expand the use of emphasis paragraphs in all audit reports.

This approach would help users identify significant events, unusual transactions, and other major items of the audit. The Company agrees that by requiring implementation of these types of paragraphs, the desired objective of creating more transparency and improved disclosures within the audit report would be achieved.

If this alternative is selected, the PCAOB must develop a standard template to be used to ensure consistency in the audit reports. Without a standard template, the emphasis paragraphs could again cause confusion among readers and would not operate as intended. In addition, the Company believes that all required descriptions should be objective, fact-based discussions and make specific reference to where such items appear in the financial statements. In the case where the emphasis paragraphs require comment on management judgments and estimates, it is specifically important that these descriptions contain strictly objective information. The Company believes that if the emphasis paragraphs were to contain any subjective information, similar to the AD&A, this could cause unnecessary conflict between management and the auditor and/or confusion for the reader.

### **Response to Question 19**

The PCAOB is suggesting that auditor assurance be obtained on information outside of the financial statements. We believe that an increase in the amount of information for which auditor assurance may be obtained creates cause for concern as it would require an increase in time and money for the Company. Additional audit procedures would need to be put in place in order to opine on information that is separate from the core financial statements and disclosures. As a result, there could be a significant increase in the number of requests to which the Company must respond. There would be increases to staffing and additional time needed to work with the auditors on this new information, both of which could lead to an extended audit time frame and increased audit fees.

### **Response to Question 21**

The Company agrees with the proposed alternative of clarification of certain language in the auditor's report. This would achieve the objective to better articulate certain matters (without incurring significant additional time or cost). This alternative provides the reader with a more transparent and relevant report by offering additional clarifying information on what the audit represents and a description of the auditor's responsibilities. We believe this type of information could be included in reports on audits of internal controls over financial reporting.

In summary, though we believe the current financial statement process is adequate, if the PCAOB feels the need to move forward with further clarification, we believe the alternative for clarification of emphasis paragraphs is sufficient. The Company cautions the PCAOB to be mindful of unintended consequences from the adoption of certain proposed alternatives, specifically as it pertains to the audit effort and the working relationship with management and the auditors. The Company looks forward to working with the PCAOB in future months to further discuss the project and to work collectively to determine a purposeful and appropriate resolution.

Sincerely,



John Doyle  
*Vice President & Comptroller*  
Liberty Mutual Group