



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

December 10, 2013

Re: PCAOB Rulemaking Docket Matter No. 34

Board Members:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's proposed new auditing standards, "The Auditor's Report on the 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" dated August 13, 2013 ("the proposed standards"). We previously commented on the concept release Matter No. 34 in our letter dated September 30, 2011.

#### Critical Accounting Matters

The proposed standards require the auditor to communicate in the auditor's report critical audit matters ("CAMs") that were addressed during the audit of the current period's financial statements. We do not support adding disclosure and discussion of CAMs in auditor reports because we do not believe they will enhance the auditor's reporting model as intended and thus will not provide any significant incremental information to financial statement users. This addition will significantly lengthen audit reports with information already provided by management in MD&A, financial statement footnotes, Section I on Form 10-K, or all three. No convincing evidence has been presented by the Board supporting the assertion that disclosure and discussion of CAMs in audit reports will benefit financial statement users or preparers. We believe including disclosure and discussion of CAMs in audit reports will unnecessarily delay financial reporting, weaken the primary objective of audit reports, and result in increased costs to companies without significant benefits to financial statement users.

Using the annual Form 10-K of Apple Inc. ("Apple" or "the Company") as way of example, MD&A in the Company's most recent annual filing, consistent with Securities and Exchange Commission rules and regulations for all public companies, includes three full pages describing critical accounting policies and facts and circumstances specific to Apple that make these accounting matters critical. As explained therein:

*"Management considers these policies critical because they are both important to the portrayal of the Company's financial condition and operating results, and they require management to make judgments and estimates about inherently uncertain matters. The Company's senior management has reviewed these critical accounting policies and related disclosures with the Audit and Finance Committee of the Company's Board of Directors."*

The matters identified by the Company's management as critical accounting policies are described in detail in MD&A, both in a separate section dedicated to such matters and, as appropriate, in addressing the Company's results of operations and liquidity. In addition, critical accounting policies are addressed as appropriate throughout Section I of the Company's annual filing when describing its business and business risks and throughout the footnotes to its financial statements. These matters are described throughout the Company's annual filing in terms of their specific impact upon the Company's accounting, their level of materiality to Company's financial statements, and the extent to which they rely upon the judgment and estimates of management. Further, it is our experience that disclosure of critical accounting policies by other companies has generally been tailored to each company's specific facts and circumstances.

The proposed standard defines CAMs as "those matters addressed during the audit that (1) involved the most difficult, subjective, or complex auditor judgments; (2) posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to the auditor in forming the opinion on the financial statements." Based on this description, it seems likely that any accounting policies identified by management as critical that are not also identified as CAMs by the auditor will be subject to significant scrutiny after-the-fact by the PCAOB inspections staff. Therefore, we believe that in almost all cases those matters considered by a company to be critical accounting policies and those matters considered by its auditors to be CAMs will be the same. Accordingly, we believe providing disclosure of these matters by auditors in their audit reports will be redundant and of little incremental value to users of financial statements.

The FASB has been working on its Disclosure Framework project for some time with the primary aim of increasing disclosure effectiveness. At its meeting on February 13, 2012, the FASB presented a summary of the responses it received from users, auditors, and preparers to its *Invitation to Comment* on the project. Respondents believed that "disclosures had become burdensome, voluminous, and contain information that may not be relevant to users," and some respondents suggested the primary goal of the project should actually be to reduce the volume of disclosures. A central theme of the feedback received by the FASB was that unimportant or redundant disclosure damaged the actual effectiveness of the overall disclosures provided in an annual report. We concur with this general observation and believe the proposal to include disclosure of CAMs in auditor's reports is in direct conflict with some of the principal goals of the FASB's Disclosure Framework project, including reduction of disclosure redundancy and improvements to disclosure effectiveness and coordination. This is true given almost all of the information that would be contained in CAMs in the auditor's report is already included elsewhere in a company's annual report.

It is asserted multiple times in the release from the Board supporting the proposed standards ("the release") that the communication of CAMs by auditors would lead to three important benefits. First, it would provide financial statement users with previously unknown information about the audit. Second, it would reduce "information asymmetry" between company management and investors. Third, reducing information asymmetry "could result in more efficient capital allocation" and "could lower the average cost of capital." We consider all of these assertions unproven. As described above, we believe that almost everything an auditor would include in an audit report regarding CAMs is already disclosed in annual reports. Therefore, with respect to critical accounting and auditing matters there is currently very little information asymmetry that would be addressed by implementation of this proposal.

There is no evidence provided in the release specifically supporting the notion that including CAMs in audit reports will reduce the cost of capital. The research cited in the Board's proposal supports the general notion that providing more extensive, broad and transparent disclosure and disseminating it appropriately can impact the cost of capital. The research cited however does not appear to support the argument that the cost of capital will be affected by disclosing any specific bits of information. It is our belief that implementation of this proposal would have no impact on our cost of capital.

We believe that further lengthening of annual reports by significantly expanding auditors reports with information addressing CAMs that should already be available to financial statements users in properly prepared annual reports will dilute the effectiveness of annual reports and will distract financial statement users from the primary purpose of the audit report, to provide a pass/fail evaluation that the subject financial statements are in compliance with generally accepted accounting principles.

As with most governmental regulation, the cost in time, dollars, quality, and other resources will ultimately be determined by the extent and depth government regulators influence implementation. We believe it is likely the PCAOB inspections staff will rigorously pursue implementation of this proposed standard and place significant focus on the judgment of auditor concerning disclosure of CAMs. This means the costs are unpredictable and that the full impact of implementation will be borne over multiple review cycles by the PCAOB inspections staff as they review how auditors address the proposed requirements.

There are two "cost" factors we are most concerned about. First, inclusion of CAMs in audit reports will displace the focus of auditors and management on key reporting and finance matters at a time when such matters require the most attention. The "cost" to audit and reporting quality this could have is a significant concern. Second, and most importantly, we believe if this proposal is adopted it is likely the issuance of many companies annual reports will be delayed. In Apple's case, we typically file our annual report on Form 10-K approximately 30 days after the end of our fiscal year or approximately 30 days before it is due per SEC regulations. We believe that providing our annual report as quickly as possible to be a great benefit to our investors. We currently have no way to judge how many more days will be added to our reporting cycle if this proposal is adopted. However, it seems likely significant additional time at the end of an audit will be required to accommodate our auditors identification of CAMs, their drafting of related audit report language, review of related audit documentation and report language by multiple levels of quality reviewers within the engagement team, interactions with the audit firm's national offices and in-house legal counsel to review customized report language, and review by our own management and Audit Committee of their draft audit report. Adopting the concept used by the Board in the release, any lengthening of the interval between the end of our fiscal year and the filing of our annual report negatively impacts the significant "*information asymmetry*" that exists between management and investors during that period. Adding to that interval so auditors can include customized and detailed language in their reports describing critical accounting areas disclosed elsewhere by management seems counterproductive.

### Reporting in Auditor Tenure

The proposed standards include a requirement that audit reports include a statement indicating the year the auditor began serving consecutively as a company's auditor. It is indicated in the release there is no conclusive evidence as to how auditor tenure impacts audit quality or how such information would help investors. Further, it is currently not difficult for interested investors to determine if a particular firm has been auditing a company for a relatively short or relatively long period. We anticipate there will be no direct economic cost to include auditor tenure information in audit reports. However, because of the absence of an identifiable benefit, we do not support this proposal.

### Reporting on Other Information

The proposed standards change the auditor's responsibility with respect to other information contained in an annual report from "read and consider" to "read and evaluate." It is not yet clear to us how this change will be interpreted by audit firms and the PCAOB inspection staff and how it would impact the procedures, costs and timing associated with an audit. Several of the major public accounting firms in their summaries of the proposed standards seem to have indicated this change could significantly add to the auditor's responsibility and possibly to the scope and cost of audit procedures. We encourage the Board to work closely with the major audit firms and the PCAOB inspection staff to ensure the full ramifications of this proposal are clear to all interested parties before a final decision is made regarding adoption.

\* \* \*

Thank you for your time and consideration of our input. If you any questions regarding our letter, you may contact Luca Maestri at (408) 862-1401 or Joel Greenberg at (408) 974-1888.

Very truly yours



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