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August 29, 2016

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

To the Members of the PCAOB;

Reference: *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. 034)*

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC"),[2] appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards*.

CFA Institute is comprised of more than 130,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures provided to investors and other end users is of high quality.

CFA Institute Position on Rationale for Changes Needed to the Independent Auditor's Report
CFA Institute has consistently supported the efforts of the PCAOB to improve the independent auditor's reporting model. We have long expressed the need to improve the Standard Auditor's Report (SAR) as a means of communicating important information to investors and other users regarding the audit of a company's financial statements. It is our belief that the SAR along with the financial statements and management's discussion and analysis should be considered part of a holistic communication of valuable information to investors to make informed capital allocation decisions. Significant efforts and costs go into an audit, yet investors are provided very little information in the three paragraph report provided by the current SAR. Through increased transparency, a revised auditor's reporting model should heighten user confidence in the audited financial statements and better inform them about the auditor's role.

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1 With offices in Charlottesville, New York, London, Brussels, Hong Kong, Mumbai, Beijing, CFA Institute is a global, not-for-profit professional association of more than 142,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 154 countries, of whom nearly 135,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 147 member societies in 69 countries and territories.

2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

The current SAR contains largely "boilerplate" language which has contributed to an "expectations gap", commonly understood as the gap between the auditor's performance, the auditor's communication of what they did, and the users' expectations regarding the audit process and findings. It is our belief that enhancements to the SAR hold the greatest promise to narrow this expectations gap and to provide decision-useful information to investors.

We urge the PCAOB to act decisively and with the best interests of the investor in mind as it works to complete this project. Investors throughout the globe are already benefitting from new auditor's reports issued in accordance with the UK Financial Reporting Council Standards and will soon see new reports issued un the International Standards on Auditing as issued by the International Auditing and Assurance Standards Board. Those who invest in the US capital markets should be given the opportunity to benefit from a more informative auditor's report and the time has come for the PCAOB to thoughtfully conclude this project.

We refer you to our previous letters for more specific comments and reference to our survey's etc. We believe those comments apply in many respects to the current re-proposal.

The links to those letters appear below:

- PCAOB Release No. 2013-005 August 13, 2013 (Proposed Rule)
- PCAOB Release No. 2011-003 June 21, 2011 (Concept Release)

The links to CFAS Institute surveys appear below:

- CFA Institute, Usefulness of the Independent Auditor's Report, March 2011
- CFA Institute, Independent Auditor's Report Survey Results, March 2010

Our aim in this letter is to address certain key changes as shown below from the PCAOB 2013 proposal.

CFA Institute Comments on Current Proposal

Determination of Critical Audit Matters (CAM)

The re-proposal narrowed the source of potential CAMs to matters communicated or required to be communicated to the audit committee. The 2013 proposal would have required CAMs to be those matters required to be:

(1) documented in the engagement completion document;
(2) reviewed by the engagement quality reviewer;
(3) communicated to the audit committee; or
(4) any combination of the three.

While we also agree with the PCAOB that narrowing the source of CAMs may be technically correct in that they ordinarily would be communicated to the audit committee, thus would be captured in the revised definition. However, we think that this narrowing further provides a more subjective approach when a more objective approach would lead to a more thorough disclosure of CAMs. Our concern remains that the proposed subjectivity might easily allow for an artful avoidance of providing information to investors. Investors have been seeking specific information from the auditor for years, and giving more objective, prescriptive guidance is necessary to ensure that those specific matters are conveyed by the auditor.

Definition of CAM

We believe the definition of CAM has been weakened under the 2016 re-proposal by the addition of a materiality component to the definition. We agree with the Council of Institutional Investors comment letter to the PCAOB in response to materiality stated below:

> *First, the definition of CAMs as interpreted in the reproposal is too narrow and unnecessarily excludes relevant information from investors. More specifically, we would not limit CAMs to any matter that "relates to accounts or disclosures that are material to the financial statements" as that phrase is interpreted in the reproposal. We note that the reproposal provides an example indicating that the phrase would exclude from the definition of CAMs a "loss contingency that was communicated to the audit committee but that was determined by management to be remote." We believe that such a narrow interpretation of the phrase would unnecessarily exclude relevant information from investors.*

This sort of example demonstrates why narrowing the definition could omit information important to investors. We believe instead that the auditor should simply apply their judgement to reporting CAMs in accordance with the factors used to determine CAMs as approved by the PCAOB in the final standard.

Further, as previously mentioned in our 2013 letter, we believe that the auditor should provide details about the quantitative and qualitative materiality levels and factors the auditor considered in establishing materiality levels.

Factors Used to Determine CAMs

We disagree with the PCAOB eliminating the following two items from the list of factors that the auditor would need to take into account when determining CAMs:

1) The severity of control deficiencies identified relevant to the matter, if any
2) The nature significance, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements related to the matter, if any.

We believe that both of these items would be relevant information to investors as they assess the overall control environment and nature of any uncorrected misstatements. We believe that narrowing the list of factors could potentially further restrict information reported to investors.

Communication of CAMs

Adding a requirement for the auditor to describe how the CAM was addressed is an improvement to the 2013 proposal. The feedback from auditor's reports issued under the Financial Reporting Council's requirements has shown that this information is valuable to investors.

Interaction Between CAMs and Explanatory Paragraphs

We agree with the changes to clarify the communication of the CAMs and required explanatory paragraphs. It is important that the CAMs and explanatory paragraphs be appropriately cross-referenced in order for users to fully understand what is being communicated by the auditor.

The re-proposal calls for the auditor to communicate in the auditor's report critical matters relating to the audit of the current period's financial statements or state that the auditor determined that there are no critical audit matters. This would imply that the auditor's report for any given audit on a comparative basis would not necessarily include critical audit matters that may have related to the prior period. Although the user could go back and review the auditor's report from the prior period, we believe that given the audit covers the prior period, that any critical audit matters relating to that period should also be in the report. By doing so, users will be able to understand the audit implications related to prior periods by reviewing only one report.

Auditor Independence
As mentioned in our 2013 letter; we believe that a statement regarding auditor independence is useful to investors and establishes a heightened sense of professional accountability. However, as we previously noted simply stating that the auditor is "required" to be independent, rather than is "in fact" independent is a less than optimal positive statement. A more definitive statement is preferable and adds further assurance that the auditor is independent. We do not believe that the PCAOB explanation for why it decided to retain the 2013 proposal language is sufficiently justified. The auditor is either independent or not, stating so should be simple.

Form of Auditor's Report
We agree that the "Opinion on the Financial Statements" should be the first section of the auditor's report followed by the "Basis for Opinion" section. We also agree that there should be titles for all other sections. These requirements improve the readability of the report.

Investor Use of the Auditor's Report
A key question being asked by the PCAOB is: how will investors use the information in the CAMs? To answer this question, the Board has to look no further than the letter of R.G. Associates, Inc. filed with the PCAOB in response to the re-proposal. The R.G. Associates, Inc. letter captures the essence of how investors will use the auditor's report and how over the many decades the auditor's report, beyond the pass/fail test (which is still very important) lacks any useful information.

CLOSING REMARKS

CFA Institute commends the PCAOB and especially those Board members who have consistently supported investors and other users over the last several years to advance matters of audit quality, of which expanded more informative audit reports is an important element. We realize that brining the auditor's reporting project to a close has been challenging for the PCAOB, but we stress that is important for the PCAOB to deliver a new model. Other standard setters have completed their projects on this matter and it is now time for the PCAOB to deliver something for the benefit of investors.

We thank the PCAOB for the opportunity to express our views on this proposal. If the PCAOB has questions or seek furthers elaboration of our views, please contact Matthew M. Waldron by phone at +1.212.705.1733, or by e-mail at matthew.waldron@cfainstitute.org.

Sincerely,

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cc: CFA Institute Corporate Disclosure Policy Council