

September 30, 2011

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006-2803



Re: PCAOB Release No. 2011-003, *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements, and Related Amendments to PCAOB Standards*

Dear Members and Staff of the Public Company Accounting Oversight Board:

TRW Automotive Holdings Corp. (“TRW”) appreciates the opportunity to comment on the PCAOB’s *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements, and Related Amendments to PCAOB Standards* (the “Concept Release”). TRW is among the world’s largest suppliers of automotive systems, modules, and components to global automotive manufacturers and related aftermarkets. TRW is also a large accelerated filer with the Securities and Exchange Commission (“SEC”) and thus subject to audit under the standards issued by the PCAOB.

TRW supports the stated objectives of the Concept Release, and believes that improvements to the auditor’s reporting model that would permit better user understanding of an audit would be beneficial to both users and management. However, as with any changes to auditing or accounting standards, the benefits to all parties under the proposed changes must also exceed the sum of the costs incurred by all parties to make the proposed improvements.

While TRW supports the stated objectives of the Concept Release, TRW does not support the Auditor Discussion & Analysis (“AD&A”), emphasis paragraph, or expansion of auditor responsibility alternatives, as we believe that the costs associated with each of these alternatives would substantially exceed the benefits that would be derived. In addition, while TRW supports some of the improvements associated with the clarification of the auditor’s opinion, TRW is also concerned that, even with this alternative, the costs to make the changes would exceed the benefits yielded by investors. Given the tight filing deadlines currently mandated by the SEC, TRW is also concerned that adding additional responsibilities to the auditor could lead to significant delays in the reporting process, causing reporting entities to miss their filing deadlines.

In addition, the PCAOB should give serious thought to the potential implications of issuing any one of the four alternatives outlined in the Concept Release. In particular, TRW is concerned that, if any of the four alternatives are issued as a final standard (or, as the PCAOB has indicated, some combination of the alternatives), it could result in a significant increase in the litigation risk born by both auditors and management. Further, several of the alternatives (most notably the AD&A and emphasis paragraphs) call into

question what the role of the auditor and management would be, and could result in damage to the auditor-management relationship.

A further explanation of our concerns follows.

Role of Management and Auditors

The Concept Release provides ideas as to how the auditor can provide additional information to users of financial statements. Several of the ideas that are included in the Concept Release include the potential for auditors to comment on the quality of the disclosures made by management, discussion of other risk factors that the auditor believes affect the reporting entity, and the discussion of matters that the auditors believe to be significant to the overall presentation of the financial statements.

As more fully enumerated in our responses to the specific questions asked by the Concept Release below, TRW is not supportive of auditor commentary on items that are specific to the reporting entity. TRW believes that, to the extent that the disclosures made by the reporting entity are in conformance with the applicable financial reporting framework, commentary indicating that the auditor believes that disclosures could be improved would, at best, be confusing to users of the financial statements, as the users of financial statements would have to spend additional time and resources to sort through conflicting information given by the auditors and by the reporting entity. More realistically, we believe that if any of the alternatives that call for auditor commentary on items specific to the reporting entity are approved, management and the auditors would see the costs of issuing financial statements increase, along with the risk of potential litigation (as further discussed below).

The Concept Release also raises, in several spots, an interesting question that the PCAOB should address prior to the issuance of a final standard. As noted above, several of the proposed alternatives would place the auditor in a position of commenting on the quality of the disclosures made by management. However, all applicable financial reporting frameworks and PCAOB auditing standards state that management is responsible for the financial statements; indeed, this is explicitly stated in the auditor's opinion. TRW is concerned that, in scenarios where the auditor is commenting on the financial statements, there could be significant confusion among users of financial statements as to who is ultimately responsible for the financial statements – management, or the auditors? In addition, several of the alternatives raise the question as to who is better equipped to inform users of financial statements about the reporting entity – management, or the auditors? Who is the best source of opinion on where the reporting entity is heading – management, or the auditors?

TRW's view is that management is the best situated to provide commentary in the financial statements on the reporting entity. Management has the broadest view of the specific risks and uncertainties that face the reporting entity, and should be permitted to provide whatever disclosures it feels are necessary in order to permit users of financial statements to understand those risks and uncertainties. TRW further believes that the only time that the auditors should be providing commentary on the disclosures made by

the reporting entity is when those disclosures are not in compliance with the applicable financial reporting framework.

Litigation

Several of the alternatives presented in the Concept Release envision that the auditors will be candid in providing feedback about the reporting entity's financial statements. The Concept Release also envisions that the alternatives would, ideally, not result in additional boilerplate language being provided by the auditors, but rather that the auditors would provide users of financial statements with useful, relevant information.

This objective, however, needs to be balanced against the significantly increased risk of litigation that the auditors will face as a result of the increase in their responsibilities. TRW is concerned that litigation costs, for both auditors and management, could significantly increase under the AD&A and emphasis paragraph alternatives, due to differences between what the auditor and management have concluded and presented in their financial statements. In addition, TRW fears that, if these alternatives go forward as proposed, they could quickly devolve into a standardized form, resulting in more boilerplate language in the financial statements, which is exactly what the PCAOB is trying to avoid.

In order to combat this, the PCAOB, in concert with the SEC, should give serious thought as to how best to balance the desire for candor from the auditors and management with the need to ensure that auditors and management are not overly penalized for providing their opinion. Management is afforded Safe Harbor protections for disclosures made in reporting entities' MD&As in forms 10-K and 10-Q; no such Safe Harbor is proposed for auditors under the Concept Release covering the AD&A.

Auditor-Management Relationship

During the course of the audit, management and the auditors will frequently meet to discuss the significant issues that have arisen. During these meetings, management will ask questions of the auditors, will suggest ideas to the auditors on the proper accounting for certain types of transactions, and the auditors will ask questions of management in order to obtain a proper understanding of the transaction. Jointly, management works with the auditors to reach the appropriate accounting conclusion, which management then presents in its financial statements. TRW believes that this collaborative approach between management and the auditors works well.

To that end, TRW believes that certain of the alternatives could significantly jeopardize that collaborative relationship. In particular, the Concept Release envisions that the auditor provide feedback on the quality of the financial statements and on those matters that are deemed most significant by the auditor. Generally speaking, the matters that the Concept Release wants the auditors to disclose are the same matters that management is consulting with the auditors on, in order to ensure that the appropriate conclusions are being reached.

TRW believes that the Concept Release as a whole, and the AD&A and emphasis paragraph alternatives in particular, could lead to a significant chilling of the relationship between management and the auditor. If the auditor is going to disclose the nature of these conversations in its reporting on the financial statements, management will likely respond by consulting with the auditors on a less frequent basis, and would thereby cause management to be less candid, and less forthcoming, with questions and information than would otherwise be the case.

Cost and Timing

TRW observes that the AD&A, emphasis paragraph, and expansion of auditor responsibilities into other information would result in an increase in auditor effort to perform their required responsibilities, as the auditor will either need to provide new reporting to users of financial statements, or to expand assurance to users of financial statements to areas previously not audited. As such, should the PCAOB select one or more of these alternatives, TRW would expect the audit fees to rise, reflecting the auditor's additional work.

However, TRW further believes that the increase in audit fees is only one element of the potential increase in costs that would be felt by all participants in the financial reporting process. TRW would further expect that costs of management would rise indirectly through documenting processes and controls over the preparation of other information prepared simultaneously with the financial statements (expansion of auditor responsibility) or in answering users questions about differences between the financial statements/management discussion and analysis and the AD&A . Costs for users of the financial statements would also increase, as they will need to spend additional effort reconciling between management and auditor conclusions (AD&A), and determining whether the matters that the auditor chose to emphasize are important to them (emphasis paragraph).

In each of the first three alternatives presented by the Concept Release, TRW believes that the direct and indirect costs that would be borne by management, users, and the auditors would significantly exceed the benefits that would be generated by the alternative. TRW believes that, particularly under the AD&A and the expansion of auditor responsibilities alternatives, the costs of performing an audit will increase significantly.

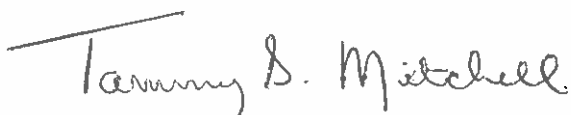
In addition, TRW is concerned that the additional effort required under each of the first three alternatives, in addition to all of the other responsibilities that auditors have under PCAOB auditing standards, may cause delays in the issuance of financial statements by reporting entities, as they wait for auditors to complete their required reporting. Given that the SEC has imposed tight deadlines on public filers, TRW believes that a significant increase in auditor responsibility will correlate to a significant increase in delayed and/or non-timely filings by registrants, particularly in the first several years of a new audit reporting model. The PCAOB, in any final standard, should address the transition elements of ensuring that the auditors, while meeting the new guidelines, have sufficient resources to be able to add an additional element to their reporting requirements.

Summary

As noted above and in our detail responses to the questions in Appendix A, while TRW supports the stated objectives of the PCAOB's concept release, we nonetheless feel that the proposed changes as stated will not adequately address such objectives in a cost-efficient or effective manner for the constituents involved.

We thank the PCAOB for its consideration of our comments and recommendations, and would be pleased to discuss these issues with the PCAOB, or its staff, at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Tammy S. Mitchell". The signature is written in black ink and is positioned below the word "Sincerely,".

Tammy S. Mitchell
Vice President & Corporate Controller

Attachment:

Appendix A: Answers to Questions for Respondents

Appendix A: Answers to Questions for Respondents

Question 1: Many have suggested that the auditor’s report, and in some cases, the auditor’s role, should be expanded so that it is more relevant and useful to investors and other users of financial statements.

- a. Should the Board undertake a standard-setting initiative to consider improvements to the auditor reporting model? Why or why not?**
- b. In what ways, if any, could the standard auditor’s report or other auditor reporting be improved to provide more relevant and useful information to investors and other users of financial statements?**
- c. Should the Board consider expanding the auditor’s role to provide assurance on matters in addition to the financial statements? If so, in what other areas of financial reporting should auditors provide assurance? If not, why not?**

In considering how to make the auditor’s report and/or the auditor’s role more relevant and useful to users of financial statements, TRW believes that the PCAOB should first examine why there is the perception that the auditor’s report and/or auditor’s role is currently not meeting the needs of users of financial statements. While we note that the PCAOB, in the Concept Release, has elaborated on some of the potential reasons why users of financial statements are not having their needs met, TRW questions whether the complaints levied against the current auditor reporting model reflect less specific complaints against the report itself but rather a lack of understanding by users of financial statements of what an audit comprises, what the auditor’s and management’s responsibilities are, what the audit opinion means, and the extent of procedures performed by the auditors in order to be able to reach the conclusion that the financial statements are presented fairly, in all material respects.

To that end, TRW would be supportive of improvements to the auditor reporting model that would seek to enhance user understanding of what an audit is, and what the audit opinion means, as further discussed below. In particular, we feel that enhancements to the audit opinion, particularly to provide a “plain English” version of the audit opinion, could produce the benefits that the PCAOB is seeking in the concept release, as further discussed in questions 21 and 22.

With regards to the expansion of the auditor’s role to provide assurance on matters beyond the financial statements, TRW would be supportive of these efforts if the benefits to the users of financial statements exceed the additional costs that would be borne, by issuers of financial statements, users of financial statements, and the audit firms themselves, to provide the additional assurance. However, while TRW supports such efforts in a general manner, TRW is not supportive of the specific alternatives discussed in the Concept Release, as further discussed below.

Question 2: The standard auditor’s report on the financial statements contains an opinion about whether the financial statements present fairly, in all material respects, the financial condition, results of operations, and cash flows in conformity with the applicable financial reporting framework. This type of approach to the opinion is sometimes referred to as a “pass/fail model.”

- a. Should the auditor’s report retain the pass/fail model? If so, why?**
- b. If not, why not, and what changes are needed?**

TRW believes that the current “pass/fail” model of financial statements should be retained. A set of financial statements either conforms to the applicable financial reporting framework or it does not. Decisions to enhance the disclosures made in the financial statements beyond what is required by the applicable financial reporting framework should be made by management, as they best understand the business that they are reporting on, and the specific benefits and risks associated with such an expansion of disclosures. If management has chosen not to provide additional disclosure because disclosures are sufficient and are in compliance with the applicable financial reporting framework, then why should they be subject to further judgment from auditors on the adequacy of such disclosures?

TRW believes that asking the auditors to “grade” the financial statements or to provide commentary on the quality of the financial statements, other than in those situations where the financial statements are not in conformity with the applicable financial reporting framework, could lead users to question whether the applicable financial reporting framework is, itself, of sufficient quality. We believe that this could lead to conflict between the PCAOB and the governing bodies of the applicable financial reporting framework(s), and could create more problems than the PCAOB is trying to solve through this Concept Release. In addition, we believe that the “grading” of the financial statements, especially in situations where the financial statements are in conformance with the applicable financial reporting framework, could lead to questions as to who is ultimately responsible for the financial statements – management or the auditors.

Question 3: Some preparers and audit committee members have indicated that additional information about the company’s financial statements should be provided by them, not the auditor. Who is most appropriate (e.g., management, the audit committee, or the auditor) to provide additional information regarding the company’s financial statements to financial statement users? Provide an explanation as to why.

As we discuss more extensively in our responses to the questions surrounding the Auditor’s Discussion and Analysis below, we believe that management would be the most appropriate group to provide additional information to the users regarding the Company’s financial statements. Further, additional disclosure requirements should

come from the financial reporting framework under US GAAP, not from auditors' discretion on what should be disclosed.

Question 4: Some changes to the standard auditor's report could result in the need for amendments to the report on internal control over financial reporting, as required by Auditing Standard No. 5. If amendments were made to the auditor's report on internal control over financial reporting, what should they be, and why are they necessary?

Based on TRW's overall evaluation of the Concept Release, we believe that if the PCAOB supports the proposals made by TRW (i.e. only proceeds with the clarification of the auditor's report, and drops the other alternatives), no revisions would be necessary to the reporting required by Auditing Standard No. 5.

If, however, the PCAOB goes forward with other alternatives presented in the Concept Release, in particular, the expansion of auditor responsibilities over other financial information and the required use of emphasis paragraphs, TRW believes that the auditor report over internal control would need to be modified.

Auditor Discussion and Analysis (AD&A)

Question 5: Should the Board consider an AD&A as an alternative for providing additional information in the auditor's report?

- a. **If you support an AD&A as an alternative, provide an explanation as to why.**
- b. **Do you think an AD&A should comment on the audit, the company's financial statements, or both? Provide an explanation as to why. Should the AD&A comment about any other information?**
- c. **Which types of information in an AD&A would be most relevant and useful in making investment decisions? How would such information be used?**
- d. **If you do not support an AD&A as an alternative, explain why.**
- e. **Are there alternatives other than an AD&A where the auditor could comment on the audit, the company's financial statements, or both? What are they?**

TRW does not support the proposal for the auditors to write an A&DA for multiple reasons. These reasons include investor confusion about the information presented in the AD&A, a worsening of the auditor-client relationship, increased litigation risk for both management and the auditors, a significant increase in audit fees to support the AD&A, and the time and effort that the auditor would expend in preparing the AD&A.

One of TRW's biggest concerns with the AD&A relates to the potential for significant investor confusion if the AD&A and the management discussion and analysis (MD&A) presented different information. Users of financial statements would have to reconcile the differing viewpoints between the information presented by management and the auditor, which would increase the costs of obtaining this information by users of financial statements (and would increase the costs incurred by preparers by having to provide this information to users). In addition, if the auditor presents different conclusions in the AD&A than those presented by management, and the auditor's report shows that the financial statements are presented in conformance with the applicable financial reporting framework, it may cause users of financial statements to call into question whether the auditor's report was correctly formulated and the proper audit opinion was reached.

In addition, the Concept Release envisions that the auditor, in the AD&A, would be reporting on those items that were the most judgmental, and required the most scrutiny, during the course of the audit. Frequently, these items are the subject of significant, lengthy discussions that occur between the auditors and management, as well as the auditor and the audit committee. The AD&A would likely require the auditor, who has previously not disclosed any information relating to these conversations and the ultimate decisions that are made for the financial statements, to disclose the nature of these conversations. This disclosure could significantly chill the auditor-client relationship, making management generally less willing to be open and candid with the auditors, thereby causing preparers to provide the auditors with the bare minimum information needed to perform their audit procedures.

The Concept Release also envisions that, in the AD&A, the auditor would provide candid feedback on the quality of the financial statements and the quality of the disclosures made. In addition to the concern, noted above, of users of financial statements calling into question whether the audit opinion was correctly formulated, if the auditors and management come to different conclusions about the level of disclosures provided, this difference of conclusions could lead to increased litigation faced by both management and the auditors, primarily through shareholder derivative suits (e.g., the presence of a different conclusion by the auditors may cause the market capitalization of the reporting entity to fluctuate, leading to lawsuits). In addition, the Concept Release envisions that the auditor would be providing their conclusions; TRW believes that the opinions expressed by the auditor in an AD&A, could lead to increased litigation risk to the auditors themselves. While management, when expressing its viewpoints in the MD&A, is protected by the Safe Harbor rules of the SEC, TRW observes that no similar protection exists for the auditors.

As with any increase in the scope of the responsibilities of, and deliverables from, the auditors, the potential benefits to be obtained from the AD&A must be measured against the increased costs. In the case of the AD&A, the increased costs would be felt by management (increased audit fees), auditors (increased work, potential for increased litigation risk), and by users (need to reconcile AD&A/financial statement differences). As the PCAOB notes, the AD&A represents the most expansive form of additional

assurance that is proposed in the Concept Release; consequently, TRW believes that the AD&A would result in a significant increase in audit fees. As such, TRW believes that the costs incurred for the AD&A reporting model would far exceed any potential benefit derived from the AD&A.

Finally, as noted in the Concept Release, the AD&A would include many of the most significant transactions entered into by management, as well as conversations between management and the auditors. In many cases, the conclusions may be reached, by both management and the auditors, late into the audit of the reporting entity. TRW is concerned that, given the significant expansion of the reporting function for the auditor that is contemplated by the AD&A, and the tight deadlines that have been imposed by the SEC for public filers for forms 10-K and 10-Q, the reporting requirements of the AD&A (particularly the drafting of the AD&A, obtaining the appropriate concurring reviewer and national office approvals, etc.) could significantly impair a reporting entity's ability to timely meet the reporting deadlines set out by the SEC.

Question 6: What types of information should an AD&A include about the audit? What is the appropriate content and level of detail regarding these matters presented in an AD&A (i.e., audit risk, audit procedures and results, and auditor independence)?

While we do not support the creation of an AD&A, should the PCAOB choose to pursue the adoption of an AD&A, we believe that the inclusion of the items noted above, such as audit risk, audit procedures and results, and auditor information, at a sufficiently appropriate level (e.g., providing the users of financial statement information with sufficient information for them to understand, but not overburden them with meaningless detail), would be appropriate.

Question 7: What types of information should an AD&A include about the auditor's views on the company's financial statements based on the audit? What is the appropriate content and level of detail regarding these matters presented in an AD&A (i.e., management's judgments and estimates, accounting policies and practices, and difficult or contentious issues, including "close calls")?

TRW does not support the AD&A including commentary from the auditor on their views of the reporting entity's financial statements; TRW believes that the only appropriate place for this information is in the audit opinion, and should appear only in those circumstances where the financial statements of the reporting entity are not in conformance with the applicable financial reporting framework. As we stated in our response to question 2, a reporting entity's financial statements either comply with the applicable financial reporting framework or they do not comply. To that end, the auditor's opinion of management's judgments and estimates, accounting policies and practices, and difficult or contentious issues, especially when the auditor states that the financial statements are in conformance with the applicable financial reporting framework, would either imply that (1) the auditor reached the wrong conclusion in their

opinion or (2) the auditor believes that the applicable financial reporting framework is insufficient.

Question 8: Should a standard format be required for an AD&A? Why or why not?

While we do not support the creation of an AD&A, should the PCAOB choose to pursue its adoption, we would not support a standard format. However, as we further discuss in the response to question 10, we believe that a standard format, even if not mandated by the PCAOB, will quickly be adopted by accounting firms.

Question 9: Some investors suggested that, in addition to audit risk, an AD&A should include a discussion of other risk factors, such as business risks, strategic risks, or operational risks. Discussion of risks other than audit risk would require an expansion of the auditor's current responsibilities. What are the potential shortcomings of including such risks in an AD&A?

TRW does not support the inclusion of other risk factors in the AD&A. We believe that management has the best knowledge of the business, strategic, and operational risks that a reporting entity faces, not the auditors. While the auditor may, during the course of the audit, obtain an understanding of the business, strategic, and/or operational risks that are faced by the reporting entity, that knowledge will likely not be as complete, or as extensive, as the knowledge held by management, who runs the reporting entity.

Including this information in the AD&A, in a manner with equal prominence to that of management (which would presumably be included in the MD&A) would suggest that the auditor knows the reporting entity and its business just as well as, or better than, current management, which would not be true.

Question 10: How can boilerplate language be avoided in an AD&A while providing consistency among such reports?

TRW believes that, in the current legal and regulatory environment, the use of boilerplate language in an AD&A would be inevitable. As discussed in our response to previous questions, auditors who present information that conflicts with, or is presented differently than, the presentation of management could be subject to significantly higher litigation risk and legal costs. We believe that this factor, alone, would drive public accounting firms to standardize their reporting in an AD&A, leading to the boilerplate language that the Concept Release is trying to avoid. In addition, the desire of the public accounting firms (and, to a lesser extent, management, who is paying fees to the public accounting firms) to achieve standardization and cost savings in preparing the AD&A would also lead to boilerplate language.

To address the first point (increased litigation risk/legal costs) TRW believes that, should the PCAOB pursue the AD&A option, in order to avoid the risk of boilerplate language while reducing litigation risk, the PCAOB should petition the SEC to grant the public

accounting firm some form of Safe Harbor protection on the AD&A. The Safe Harbor protection should be analogous to the Safe Harbor protections that reporting entities have in their MD&As in forms 10-K and 10-Q.

Question 11: What are the potential benefits and shortcomings of implementing an AD&A?

Please see our response to question 5 on the shortcomings of the AD&A, and to question 12 on the limited benefits we see the AD&A providing.

Question 12: What are your views regarding the potential for an AD&A to present inconsistent or competing information between the auditor and management? What effect will this have on management's financial statement presentation?

While TRW believes that, in an AD&A, there is certainly the potential for the AD&A to present different or inconsistent information than that disclosed by management (either in MD&A or the footnotes), in practice TRW believes that this will not happen as often as would be expected in the Concept Release. While we believe that the PCAOB has identified one possible source that could lead to a reduction of differences (that is, pressure from the auditors by disclosing something in the AD&A leading to an improvement in the financial statements), we believe that this is only one factor among several that would drive greater conformity between the MD&A/financial statements and the AD&A.

In particular, TRW believes that the pressure that the auditor can bring to bear against the reporting entity, by including items in the AD&A, goes both ways; we believe that, under an AD&A scenario, the auditors would be subjected to significant pressure by management to conform their AD&A to the presentation presented by management. While the auditor may choose to not do this, the auditor would risk significant damage to the auditor-client relationship, up to and including management replacing the auditor. Further, as discussed in other responses above, we believe that the auditor would face significant litigation risk in the event that the AD&A is different than management's interpretation, particularly in those situations where the auditor opines that the financial statements are fairly presented in accordance with the applicable financial reporting framework.

To that end, TRW questions whether the perceived benefits that the PCAOB notes in the Concept Release behind an AD&A will materialize. While there may be some marginal improvements in reporting entity financial statements, TRW believes that the significant improvement that the PCAOB indicates that, in the Concept Release, they want to see will not be realized by an AD&A.

Emphasis Paragraph

Question 13: Would the types of matters described in the illustrative emphasis paragraphs be relevant and useful in making investment decisions? If so, how would they be used?

TRW believes that while the emphasis paragraphs, as described in the Concept Release, might serve to point users of financial statements to the relevant sections of the financial statements that contain the areas that the auditor chooses to emphasize, we do not believe that the presence of an emphasis paragraph, in and of itself, would provide relevant, useful information to users of financial statements.

TRW also believes that the inclusion of an emphasis paragraph, which emphasizes the matters that the auditor believes are significant, may also be misleading to users of financial statements, as the items that the auditors may find to require emphasis may differ from the items that the users of financial statements would like to have emphasis/additional information on.

Question 14: Should the Board consider a requirement to include areas of emphasis in each audit report, together with related key audit procedures?

- a. If you support required and expanded emphasis paragraphs as an alternative, provide an explanation as to why.**
- b. If you do not support required and expanded emphasis paragraphs as an alternative, provide an explanation as to why.**

TRW does not support the use of required and expanded emphasis paragraphs, as proposed in the Concept Release. The reasons include investor confusion about the information presented in the emphasis paragraphs, a lack of clarity as to what a “significant” matter is and what the resolution process is if the auditor and management disagree, and increased litigation risk for both management and the auditors.

While, as we note in our response to question 13, the emphasis paragraph may serve as a reference to users of the financial statements to indicate the areas that the auditor chooses to emphasize, the Concept Release does not require the auditor to provide a rationale as to why the auditor chose to emphasize that matter. TRW acknowledges that, in some cases, the reason why the auditor chose to emphasize a particular matter will be obvious to most users of that reporting entity’s financial statements (for example, an auditor may choose to highlight disclosures surrounding credit default swaps issued by the reporting entity) due to the highly complex, judgmental, or material nature of the topic to the reporting entity. However, in other instances, the rationale behind why the auditor chose to emphasize a matter may be less clear, or may not be clear at all, to the users of the financial statements. This will, in turn, cause users of financial statements to question why the auditor chose to emphasize a particular matter, leading to increased costs being borne by the users of the financial statements (in order to properly understand the

financial statements) and by preparers (in answering the questions raised by users of financial statements).

The failure in the Concept Release to require the auditor to discuss why a particular topic was emphasized is compounded by the lack of clarity as to what a “significant matter” is. TRW observes that the word “significant” does not exist in either the accounting or auditing literature. Consequently, we are uncertain as to what a “significant matter” would be – is it a material matter (as defined in the auditing/accounting literature), a severe matter (as that term is defined in Accounting Standards Codification (ASC) Topic 275), something greater than a severe matter, or is it at some level in between?

Even ignoring the lack of definition as to what a “significant” matter is, TRW foresees that the required use of emphasis paragraphs to discuss these matters could result in significant disagreement between management and the auditor as to what constitutes a “significant” matter. For example, if management identifies a matter as being significant, and expends effort to appropriately disclose this in the MD&A and financial statements, but it is not identified as one by the auditor, the auditor may be questioned as to whether they performed adequate procedures to support the audit opinion issued. Similarly, if the auditor identifies a topic as being significant, but there is little disclosure made by management (either because the disclosures are in compliance with the applicable financial reporting framework or because management does not believe the matter to be significant or material), it may raise questions to management as to why their disclosures on the topic are short, but it may also raise questions to the auditors as to why they are focusing on areas that management deems to be less significant or immaterial. It further raises the question as to who is best suited to determine what provides the best insight and understanding to the users of financial statements – management or the auditors?

Finally, the requirement to have an emphasis paragraph in the audit opinion will lead to increased litigation risk faced by both auditors and management. The increased litigation risk borne by both auditors and management will occur if there is a disagreement between the auditors and management, as envisioned above, and could lead to a significant increase in derivative lawsuits filed against both the management of the reporting entity and the auditors for damaging shareholder value. In addition, the emphasis paragraph would effectively provide a “road map” to what the auditors felt are the most significant items in the audit; in the event that management or the auditor makes an oversight error in the identification of the significant items, or even if management and the auditor correctly identified the significant items and reached the right conclusions based on the facts and circumstances at the time, it would lead to greater litigation risk and a reduction of shareholder value.

Question 15: What specific information should required and expanded emphasis paragraphs include regarding the audit or the company’s financial statements? What other matters should be required to be included in emphasis paragraphs?

TRW does not support the required and expanded emphasis paragraphs that would be required in the audit opinion; however, should the PCAOB choose to pursue this option

we believe that the required and expanded emphasis paragraphs should only cover those items which, if the accounting was deemed to be materially incorrect, would result in a severe impact to the reporting entity's financial statements, as that term is defined in ASC Topic 275. For example, a large lawsuit equal to 20% of revenues, a large business combination, non-compliance with debt covenants, or the bankruptcy of a material customer, could prompt the issuance of an emphasis paragraph.

Question 16: What is the appropriate content and level of detail regarding the matters presented in required emphasis paragraphs?

While TRW does not support the concept of a required emphasis paragraph in the audit opinion, should the PCAOB choose to pursue this option, we believe that the content should be at a sufficiently appropriate level to allow users of the financial statements to understand (1) why the matter was emphasized and (2) the procedures that the auditors performed to gain comfort that management's assertions were correct.

As to the level of detail, we believe that the emphasis paragraph should strike a balance between providing the users of financial statements with sufficient information to understand the points noted in the preceding paragraph, while not overburdening users of financial statements with meaningless detail.

Question 17: How can boilerplate language be avoided in required emphasis paragraphs while providing consistency among such audit reports?

TRW believes that, if the PCAOB chooses to pursue the use of required emphasis paragraphs, boilerplate language in the emphasis paragraphs is inevitable, for many of the same reasons that we cited in our response to question 10 above (e.g., litigation risk, desire by both auditors and management to streamline/reduce amount of work needed).

Unlike the AD&A, TRW believes that, because the emphasis paragraph would be included in the audit opinion, the potential of offering the auditor a "Safe Harbor" provision, such as that discussed in question 10 above, would not be a viable solution for the emphasis paragraph. TRW acknowledges that, given the PCAOB's desire to have the auditors be candid in the required emphasis paragraph, some form of protection would need to be given to the auditors to promote that candor; however, TRW does not know, nor do we offer any suggestions on, how that form of protection can or should be given.

Question 18: What are the potential benefits and shortcomings of implementing required and expanded emphasis paragraphs?

Please see TRW's response to question 13 on the potential benefit of the required emphasis paragraph, and our response to question 14 on the shortcomings that we foresee with the required emphasis paragraph.

Question 19: Should the Board consider auditor assurance on other information outside the financial statements as an alternative for enhancing the auditor's reporting model?

- a. If you support auditor assurance on other information outside the financial statements as an alternative, provide an explanation as to why.**
- b. On what information should the auditor provide assurance (e.g., MD&A, earnings releases, non-GAAP information, or other matters)? Provide an explanation as to why.**
- c. What level of assurance would be most appropriate for the auditor to provide on information outside of the financial statements?**
- d. If the auditor were to provide assurance on a portion or portions of the MD&A, what portion or portions would be most appropriate, and why?**
- e. Would auditor reporting on a portion or portions of the MD&A affect the nature of MD&A disclosures? If so, how?**
- f. Are the requirements in the Board's attestation standard, AT sec. 701, sufficient to provide the appropriate level of auditor assurance on other information outside the financial statements? If not, what other requirements should be considered?**
- g. If you do not support auditor assurance on other information outside the financial statements, provide an explanation as to why.**

TRW does not support the PCAOB's proposals to extend auditor assurance on other information outside of the financial statements. While we do see some benefits associated with the proposals, as more fully discussed in question 20, TRW believes that the costs associated with the proposals would greatly exceed the benefits that users of financial statements would derive. In particular, TRW believes that the idea of extending auditor assurance would increase the workload on auditors, leading to higher audit fees, could create difficulties for the auditors in attempting to audit management opinions and forecasts, and could result in creating investor confusion about the suitability of the financial reporting framework under audit.

TRW believes that the expansion of the scope of the audit to cover all other information outside of the financial statements represents the most significant expansion of auditor responsibilities contemplated by the Concept Release, resulting in a potentially greater auditor effort than even the AD&A discussed above. Greater auditor effort would, necessarily, result in higher fees to be paid by preparers of financial statements to support the increased audit requirements. In addition, as the Board notes in the Concept Release, there is currently no guidance in the auditing or attestation literature for items that would be found outside of Form 10-K or Form 10-Q (e.g., earnings releases, non-GAAP

measurements, etc.). TRW is concerned that the significant expansion of auditor responsibilities will lead to higher indirect costs for management, as they will be required to document and formalize controls that may be in place over the issuance of such information. While TRW does not support the expansion of auditor responsibilities outside of the financial statements, should the PCAOB choose to pursue this path, we would very strongly advocate that the additional responsibility given to auditors be limited to what would be found in Form 10-K or Form 10-Q.

Even if the PCAOB limits the expansion of the scope of the audit to just those items included in Forms 10-K and 10-Q, TRW would still have significant reservations about the expansion of responsibilities to these items. This is because, in many cases in the Form 10-K and 10-Q, management is giving their opinion about what has happened, or giving an estimate or forecast as to what may happen in the future. Under the premise of the Concept Release, TRW believes that these opinions, estimates, and/or forecasts would have to be subject to some form of auditor scrutiny, which raises the question of how would an auditor audit an opinion? How would an auditor provide assurance that management's forecast appears reasonable? TRW foresees, without a significant investment by the PCAOB in developing auditing standards to support auditors in making these significant decisions (or, perhaps, an exemption from attempting to audit management opinion), significant breakdowns in the audit process when management and the auditor disagree about the opinions, forecasts, or estimates that are presented outside of the financial statements, but elsewhere within Forms 10-K and 10-Q. Further, open communications between preparers and auditors may in fact deteriorate as a result. To this end, we believe that the PCAOB's attestation standard, AT 701, would not be sufficient by itself to cover the responsibilities of the auditor in such a scenario; however, TRW does acknowledge that it does represent a reasonable starting point for the creation of such a future standard.

Finally, we question whether extending auditor responsibilities to information presented outside of the financial statements would yield the benefits to users of financial statements that the PCAOB seems to believe would materialize. In particular, if the PCAOB extends auditor responsibilities to cover all information, as suggested in the Concept Release, it calls into question whether the PCAOB believes that the applicable financial reporting framework is sufficient. For example, if the PCAOB expands auditor responsibility into non-GAAP measurements, users of financial statements could infer that the auditors are providing just as much assurance on the non-GAAP measurements as they would on a measurement that is specified in the applicable financial reporting framework. This could, in turn, suggest that the auditors and/or the PCAOB believe that the applicable financial reporting framework is, itself, incomplete or deficient.

Question 20: What are the potential benefits and shortcomings of implementing auditor assurance on other information outside the financial statements?

TRW does believe that, if the expansion of auditor responsibilities is adopted as envisioned in the Concept Release, it may lead to a standardization of presentation of certain non-GAAP financial measurements; however, as noted in our response to the last

question, we believe that this could create jurisdictional issues between the auditors/PCAOB and the governing bodies of the applicable financial reporting framework.

Please see our response to question 19 for the potential shortcomings of the expansion of auditor assurance to other information outside of the financial statements.

Audit Report Clarification

Question 21: The concept release presents suggestions on how to clarify the auditor's report in the following areas:

- **Reasonable assurance**
 - **Auditor's responsibility for fraud**
 - **Auditor's responsibility for financial statement disclosures**
 - **Management's responsibility for the preparation of the financial statements**
 - **Auditor's responsibility for information outside the financial statements**
 - **Auditor independence**
- a. **Do you believe some or all of these clarifications are appropriate? If so, explain which of these clarifications is appropriate? How should the auditor's report be clarified?**
 - b. **Would these potential clarifications serve to enhance the auditor's report and help readers understand the auditor's report and the auditor's responsibilities? Provide an explanation as to why or why not.**
 - c. **What other clarifications or improvements to the auditor's report can be made to better communicate the nature of an audit and the auditor's responsibilities?**
 - d. **What are the implications to the scope of the audit, or the auditor's responsibilities, resulting from the foregoing clarifications?**

TRW believes that a number of the proposed clarifications could enhance the understanding of users of financial statements as to what exactly the auditor's report states. In particular, we would support the clarifications surrounding the definition of reasonable assurance, the auditor's responsibility for fraud, and the auditor's responsibility for information outside of the financial statements in the audit opinion, as we feel that having a clearer, or "Plain English," explanation could enhance user knowledge over these terms. At the same time, however, TRW also acknowledges that the PCAOB's auditing standards are publicly available on its web site and the AICPA (and, indirectly, the PCAOB) is currently participating in a "Clarity Project" to make the requirements of the auditing standards more "Plain English," such that users could, on their own, enhance their understanding by fully reading the auditing standards.

TRW does not believe that the proposed enhancements surrounding the auditor's responsibility for financial statement disclosures, management's responsibility for the preparation of the financial statements, and auditor independence would enhance the understanding of users of financial statements, as TRW feels that these are either clearly spelled out already in the audit report (in the case of management's responsibility and auditor independence) or would seem to logically flow from the audit report itself (in the case of the auditor's responsibility).

TRW does not believe that additional clarifications or improvements to the auditor's report, other than those already discussed above, are necessary or would be warranted, and believes that there would be no significant implications to the scope of the audit, or auditor's current responsibilities – as the PCAOB suggests, this would merely represent a clarification of what the auditor should already be doing.

Question 22: What are the potential benefits and shortcomings of providing clarifications of the language in the standard auditor's report?

Please see our response to question 21.

Questions Related to All Alternatives

Question 23: This concept release presents several alternatives intended to improve auditor communication to the users of financial statements through the auditor's reporting model. Which alternative is most appropriate and why?

As noted in our responses to questions above, TRW believes that all of the alternatives will significantly increase costs to preparers, auditors, and, in some cases, users of financial statements. In addition, as noted above, TRW does not support the proposed alternatives in the Concept Release surrounding the AD&A, required and expanded emphasis paragraphs, and expansion of auditor responsibilities to other information outside of the financial statements.

Based on this, TRW believes that the fourth alternative, the clarification of certain phrases in the audit report itself, comes closest to balancing the benefits to be obtained by the users of the financial statements with the costs associated with making the changes proposed in the Concept Release borne by preparers, auditors, or users of financial statements.

Question 24: Would a combination of the alternatives, or certain elements of the alternatives, be more effective in improving auditor communication than any one of the alternatives alone? What are those combinations of alternatives or elements?

Since, as noted above, TRW does not support three of the four alternatives, and only partially supports the fourth alternative, TRW believes that combining the alternatives would only exacerbate the problems that TRW foresees with the individual alternatives presented in the Concept Release. Even in a pared down scenario, such as we discuss in

our response to question 19, we see significant difficulties in implementing any combination of the four alternatives.

Question 25: What alternatives not mentioned in this concept release should the Board consider?

We did not identify any alternatives that the PCAOB should consider.

Question 26: Each of the alternatives presented might require the development of an auditor reporting framework and criteria. What recommendations should the Board consider in developing such auditor reporting framework and related criteria for each of the alternatives?

As noted in our responses to several of the questions above, TRW believes that, should the PCAOB pursue any one of the alternatives (even though, as noted above, TRW does not support three of the four alternatives), that the PCAOB should take a cue from the FASB in their development of the auditor reporting framework. That is, the overriding goal of the auditor reporting framework developed by the PCAOB should be to provide the user with sufficient information to understand the decisions made by the auditor and the procedures performed by the auditor, while not overburdening the users of financial statements with so much information to make the auditor's reporting irrelevant.

Question 27: Would financial statement users perceive any of these alternatives as providing a qualified or piecemeal opinion? If so, what steps could the Board take to mitigate the risk of this perception?

TRW believes that, if the PCAOB pursues the first three of the alternatives presented in the Concept Release (that is, the AD&A, emphasis paragraph, or expansion of auditor responsibilities option), financial statement users could, and probably would, perceive the language in any of these alternatives as potentially providing a qualified or piecemeal opinion, regardless of the ultimate opinion expressed by the auditor over the financial statements. In particular, if the auditor is providing commentary on the quality of the disclosures, or emphasizes a matter for which management has not provided a lot of disclosure, TRW believes that users of the financial statements may interpret this commentary to suggest that the audit opinion is qualified or piecemeal. Further, an emphasis paragraph or matters discussed in AD&A could lead to greater user confusion based on the relative prominence given such matters as compared to the level of disclosure provided by preparers.

There are a couple of potential solutions that may partially ameliorate this problem that the PCAOB could implement. The first would be that, in any situation where the auditor may be commenting on the quality of disclosures or emphasizing a matter, the auditor should provide commentary indicating that the disclosures made by management are in accordance with the applicable financial reporting framework. While it will not completely inoculate the auditor from the perception that they are providing a piecemeal

report, emphasizing management's compliance with the applicable financial reporting framework will provide users with assurance that the audit opinion can be relied upon.

Second, TRW feels that, should the PCAOB choose to pursue any of the four alternatives, that the level of assurance/reporting that should be performed should be at the same level as that provided to the financial statements; that is, the auditor should be providing reasonable assurance that the information being covered in each of the alternatives is correct (whether in an AD&A format, emphasis paragraph, or expansion of auditor's responsibilities). Any lower level of assurance to be provided by the auditors, in any of the proposed alternatives, could lead to the perception by users of financial statements that the work performed is of lower quality than the work performed on the financial statements. For the avoidance of doubt, it should be clearly indicated, and users must be educated to the fact, that no such lower level of quality exists. Otherwise, varying degrees of standards will lead to even greater confusion as to the level of assurance provided.

Question 28: Do any of the alternatives better convey to the users of the financial statements the auditor's role in the performance of an audit? Why or why not? Are there other recommendations that could better convey this role?

TRW believes that the fourth alternative (clarification of phrases in the audit opinion) would have the most impact to the understanding of users of financial statements on the auditor's role, as it would help to clarify the roles and responsibilities of the auditor during this process. While the AD&A and the emphasis paragraphs may help users of financial statements to understand better the auditor's role, the understanding would be limited only to those matters that the auditor emphasized (in the emphasis paragraph) or covered in the AD&A.

Question 29: What effect would the various alternatives have on audit quality? What is the basis for your view?

TRW believes that the various alternatives proposed in the Concept Release would have a negligible impact on audit quality. Auditors should be obtaining sufficient, credible evidence to evaluate the totality of management's financial statement presentation and disclosures, regardless of the topic being presented. While including the matter in an emphasis paragraph, or in the AD&A, may create an improvement in audit quality, as the significant matter(s) would be on public display, TRW believes that the improvement that these alternatives may obtain would be marginal, at best.

We further believe that the expansion of auditor's responsibility to information outside of the financial statements, as well as clarification of the auditor's report, would have no impact on audit quality, and may even degrade audit quality in the initial period in which the alternatives are required, as the auditors may not have the capacity to support the additional reporting proposed in the Concept Release.

Question 30: Should changes to the auditor’s reporting model considered by the Board apply equally to all audit reports filed by the SEC, including those filed in connection with the financial statements of public companies, investment companies, investment advisors, brokers and dealers, and others? What would be the effect of applying the alternatives discussed in the concept release to the audit reports for such entities? If audit reports related to certain entities should be excluded from one or more of the alternatives, please explain the basis for such an exclusion.

While we do not support the AD&A, required use of emphasis paragraphs, or expansion of auditor responsibilities, and have offered qualified support for the clarifications to the audit report discussed in the Concept Release, TRW believes that if the PCAOB chooses to pursue these changes, the changes should be applied equally to all audit reports filed with the SEC.