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

30 September 2011

RE: PCAOB Rulemaking Docket Matter No. 34, *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards*

Dear Sir:

Overview of our key message

We appreciate the opportunity to respond to the Public Company Accounting Oversight Board's (the "Board") *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* (the "Concept Release"). We commend the Board for its outreach to investors and others as a basis for developing the Concept Release and for its continued outreach via the public roundtable held on September 15, 2011. Results of that outreach clearly call for changes to the auditor's reporting model to increase its transparency and relevance. Recent projects undertaken by global standard-setters, in particular the International Auditing and Assurance Standards Board's (IAASB) consultation paper *Enhancing the Value of Auditor Reporting: Exploring Options for Change,*[1] and regulators further underscore the call for change. We also believe the time is right for changes to the auditor's reporting model, and further agree with the Board that any change cannot compromise audit quality. We believe:

- Changes should be driven by a clear set of principles to ensure all changes add value and increase relevance.
- Some changes can be made in the shorter term but any other reforms need to be framed as part of a wider consideration of the corporate reporting model.
- The public interest will be best served by different standard-setters working collaboratively to ensure that, as far as possible, consistent models are developed.

Importance of corporate reporting context

The fall-out of the financial crisis still reverberates around the world. In many ways, the crisis fundamentally shifted the way the world views the capital market systems. It also created a compelling case to consider reforming the corporate reporting model to better meet the information needs of users. Developing a relevant and valued corporate reporting model for the upcoming century will require the active engagement and collaboration of many — management, directors, investors, auditors, regulators, policy makers, legislators, as well as standard-setters.

[1] The IAASB consultation paper explores similar alternatives and the network of member firms of PricewaterhouseCoopers International Limited responded to this proposal on September 16, 2011.

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The current audit report pertains only to the financial statements and, for certain issuers, internal control over financial reporting. As corporate reporting evolves, a more comprehensive assurance model can further enhance the relevance and value of the auditor's role, which may potentially include opinions that cover other aspects of the company's reporting. We believe the PCAOB collaborating with the IAASB can, and should, play a leading role in promoting that debate, and we stand ready to work collaboratively with all interested parties to actively drive this agenda forward.

The Concept Release is framed within the context of today's corporate reporting model. We believe that genuine enhancements in auditor reporting can be made in the shorter term even with that constraint. Such improvements alone may not provide the informational value and greater insights many are seeking and, therefore, we continue to emphasize the importance of longer-term consideration of the corporate reporting model. Options proposed that we believe are not practicable in the shorter term — as well as options not yet even considered — may become viable as the wider corporate reporting model evolves.

Why change today's auditor reporting?

Today's audit underpins confidence in financial reporting. Its value rests in the reliability of audited financial statements that is pivotal to the effective functioning of the capital markets.

The audit report inevitably influences users' perceptions of audit quality and relevance. Users tell us that the current auditor's report is not meeting their needs as well as it could. They greatly value the auditor's opinion on the financial statements, but they would like more informative reporting — greater insight into the company's financial reporting and the audit, as well as assurance or related services on other information not within the scope of today's financial statement audit — which forms the basis for the alternatives for change proposed in the Concept Release.

Our overarching principles for effective auditor reporting

As we evaluated the alternatives for additional auditor reporting in the Concept Release, we assessed them against the following principles. We found them to be useful guideposts to identifying constructive changes and avoiding changes that may not accomplish the stated objective in the Concept Release of increasing auditor transparency and relevance, while not compromising audit quality.

1. **Changes made to auditor reporting should:**

   - **Maintain or improve audit quality.** Audit quality is paramount and could be negatively affected if a proposed solution inadvertently reduced the auditor's ability to obtain sufficient appropriate audit evidence.
   - **Enhance the value of the audit to users**. Users should see substantive value from the changes. To be sustainable, the incremental benefits of that additional information should exceed the costs involved.
   - **Increase the reliability of information the company provides in public reports.** Providing assurance on information that previously was not subject to audit/assurance directly affects its reliability. Some of the options may also have an indirect positive impact if they serve to increase the attention that management and audit committees pay to those elements of their corporate reporting.

2. **Changes should maintain or enhance the effectiveness of the relationships and interactions of auditors, audit committees and management in the financial reporting process.** The audit model depends on effective communication among the participants in the financial reporting process. Professional skepticism and challenge are key elements of an audit. Audit effectiveness also depends on the ability of the auditor to have effective communication with and obtain information from management and audit committees. The impact of the proposed solutions on the interrelationships among auditors, audit committees and management needs to be considered so that they do not have a negative impact on audit quality by impeding these important interactions.

3. **Auditor reporting should be sufficiently comparable**. Any move away from a completely standardized report and opinion will inevitably introduce some variation. Financial reporting and auditing also require significant exercise of professional judgment. Any solutions proposed must result in information that can further contribute to market confidence in audited financial statements. Auditor's reporting on information that is subjective or variable (such that two auditors given the same fact pattern and information could come to different conclusions and issue substantively different reports) will not meet this criterion.

4. **Auditor reporting can provide greater insight based on the audit but the auditor should not be an original source of factual data or information about the company.** Factual data or information about the company should be reported by the company (i.e., by management and/or audit committees) to avoid blurring the responsibilities of auditors, management and audit committees. This is also important to avoid confusion and disrupting capital markets by providing competing views of the true underlying picture of the company's ’s financial position and/or performance.

Our vision of responsive changes in auditor reporting

It is our understanding that today's pass/fail model contributes to the value placed on audited financial statements by market participants; therefore, we believe this model should be retained. Our vision of enhanced auditor reporting in the context of today's corporate reporting model retains what is working well but makes it better by:

- Highlighting the significant judgments disclosed by management in preparing the financial statements through the use of emphasis paragraphs in the auditor's report.
- Expanding auditor involvement to provide additional assurance on or other auditor association with other aspects of a company's corporate reporting (where the benefits of that additional assurance are agreed to exceed the costs).
- Clarifying certain aspects of, and adding additional information to, the standard auditor's report, principally to reduce any perceived expectations gap.

We also believe that some of the changes being sought with respect to the audit report — including, in particular, those that put the auditor in the position of reporting financial information for management — would be better met by changes to the broader corporate financial reporting model. Such proposals for change should be addressed holistically by all participants in the financial reporting supply chain to achieve meaningful change. This longer-term effort would involve examining opportunities for improvement in the roles/responsibilities of:

- Preparers – Consider whether disclosures should be expanded, streamlined and/or otherwise improved.
- Audit committees – Consider whether expanded and/or improved information about audit committee oversight activities should be provided. A secondary question exists regarding whether users believe additional benefits would be provided if the auditor provided assurance on or were otherwise associated with an expanded audit committee report.
- Regulators/ standard-setters – Consider whether enhanced disclosures by preparers could be achieved, where considered necessary.

This holistic approach is consistent with the feedback obtained from the Center for Audit Quality's (CAQ) role of the auditor (RoA)[2] working group.

Our comments on the specific alternatives outlined in the Concept Release follow.

Required and expanded use of emphasis paragraphs

As stated in the Concept Release, this alternative would mandate the use of emphasis paragraphs in all audit reports to highlight the most significant matters in the financial statements and to identify where these matters are disclosed in the financial statements. The Concept Release states emphasis paragraphs could be required in areas of critical importance to the financial statements, including significant management judgments and estimates, areas with significant measurement uncertainty, and other areas that the auditor determines are important for a better understanding of the financial statement presentation. With respect to each matter of emphasis under this alternative, the Concept Release also raises the possibility the auditor could be required to comment on key audit procedures performed pertaining to the identified matters.

We believe the required use of emphasis paragraphs could be a viable approach to enhance the navigability of management's disclosures by highlighting where the auditor believes management's significant judgments related to financial reporting, including areas with significant measurement/estimation uncertainty, are described in the financial statements. In the short term, this improved navigation could be responsive to stakeholders' call in the CAQ's RoA working group for disclosures to be more streamlined and focus on what is significant.

Question 17 of the Concept Release asks how boilerplate language can be avoided in required emphasis paragraphs while providing consistency among audit reports. With respect to providing emphasis paragraphs highlighting management's significant judgments disclosed in the financial statements, we do not believe this would be a significant issue. First, the significant judgments may change from year to year, but even if they do not, standard language can still provide meaningful information to users of the financial statements if it draws attention to those accounting and disclosures areas of significance.

Subject to our comments below, we believe this alternative could be consistent with our overarching principles.

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[2] The Center for Audit Quality's (CAQ) role of the auditor (RoA) working group is evaluating what additional work auditors might perform beyond their current responsibilities to better meet the needs of users, and to that end has hosted a series of discussion roundtables seeking feedback from investors, analysts, audit committee members, preparers, attorneys and academics. The CAQ has published a summary report that highlights observations from participants in these roundtables.

Population of matters to be emphasized

As discussed in our overarching principles, we believe effective implementation of the emphasis paragraph alternative depends on auditor reporting that is sufficiently similar to facilitate users' comparison of such matters among different companies. Accordingly, we believe that auditing standards should provide a clear framework for identifying the matters to be referenced in the auditor's report. Clear guidelines should be established for the identification of matters to be emphasized in order to facilitate comparability, and also to avoid the emphasis of too many matters. In addition, the clear identification in auditing standards of what matters are required to be emphasized would help mitigate the potential unintended consequence that users would use emphasis paragraphs as an indicator that other financial reporting disclosures that are not emphasized are not important to an understanding of the financial statements. This approach is consistent with the feedback from the CAQ's RoA working group that believed it would be beneficial for the auditor to highlight the highest risk areas of financial statements which could result in improved disclosures throughout the annual report, including Management's Discussion and Analysis (MD&A).

The extent of disclosure in the auditor's emphasis paragraphs, as well as the population, should also be addressed in the Board's standards. In keeping with the auditor's role of attesting to management's assertions so that management, not the auditor, remains the original source of a company's disclosures, we also believe that emphasis paragraphs in the auditor's report, if required, should provide only a high level summary of the facts already presented within the financial statements and leave the details for the financial statement disclosure that is referenced.

Disclosure of auditing procedures in response to matters identified

The Concept Release raises the possibility of the auditor's disclosure of key audit procedures that are responsive to the areas emphasized in the auditor's report. Although providing this information seems reasonable conceptually, and the CAQ's auditor's reporting model (ARM)[3] working group efforts included developing examples of how such disclosure could be implemented, certain challenges cannot be overcome. In particular, identifying only certain procedures in the absence of sufficient context regarding the audit approach, auditor's risk assessment and methodology could diminish users' perception of the auditor's work effort, which may increase the expectations gap by exacerbating, rather than reducing, perceived misconceptions of audits. On the other hand, a more complete discussion of the audit procedures could result in "disclosure overload," and could easily become either too technical or lead to boilerplate descriptions of "standard" procedures. In addition, the auditor's discussion of audit procedures related to emphasis paragraphs may be misinterpreted by some as the auditor's expression of an opinion on the matters emphasized.

For these reasons we are not supportive of disclosing the key audit procedures performed pertaining to the areas emphasized; however, if such an approach is pursued, we believe a more appropriate approach to disclosure of auditing procedures is included in the CAQ response letter to the PCAOB dated June 28th which concludes the emphasis paragraph section of the illustrative auditor's report with the following statements: that our audits included performing procedures designed to address the risks of material

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[3] The CAQ's auditor's reporting model (ARM) working group is exploring changes to the auditor's reporting model that could best serve users' needs for additional information from auditors without compromising audit quality. The initial results of this group were communicated in a comment letter to the PCAOB dated June 28, 2011, and an additional comment letter is expected to be issued for the Board's consideration.

misstatement associated with the above matters; such procedures were designed in the context of our audit of the consolidated financial statements taken as a whole, and not to provide assurance on individual accounts or disclosures; and that our audits also included procedures in response to other identified risks of material misstatement and procedures required by professional standards that have not been specifically included herein.

Auditor assurance on other information outside the financial statements

The Concept Release discusses, and we agree, that many users rely on MD&A and other financial information (e.g., non-GAAP information and earnings releases) in addition to historical audited financial statements. As a result, we believe, if there is market demand, additional auditor assurance on other aspects of the company's corporate reporting would improve the quality, completeness, and reliability of such information as discussed in the Concept Release. This alternative is also consistent with the feedback received from the CAQ's RoA working group.

We believe that auditor reporting on information outside the financial statements is a natural expansion of the role of the auditor — to enhance the reliability of information provided by management — into new areas and, as such, it may be viewed as a continuum building on the audit of financial statements and, for certain issuers, the audit of internal control over financial reporting. Importantly, it is consistent with the principles articulated above and preserves the auditor's core role of attesting to information provided by management.

In the shorter term, we support the proposal in the CAQ response letter dated June 28th for an examination engagement to provide an opinion on the Critical Accounting Estimates (CAE) disclosure in MD&A. The advantages to this approach include that it is responsive to calls for more emphasis on the important judgment calls made in preparing the financial statements, including accounting estimates. Auditor attestation should also serve to improve disclosures in this important area.

In addition, focusing on a specific aspect of MD&A provides some practical advantages for implementation. As a starting point, the SEC has provided guidance in disclosing critical accounting estimates for management. We acknowledge that the SEC would need to consider whether amendments to Regulation S-X are necessary to require this new attestation report, and whether further rulemaking would be necessary to consolidate existing CAE requirements into Regulation S-K. Other practical advantages of focusing on a *specific* aspect of MD&A, rather than *all* of MD&A, include easing the time pressure of meeting SEC filing deadlines and limiting the incremental costs of such reporting.

Assuming there is market demand for auditor assurance on or association with earnings releases and non-GAAP information, we believe the Board should consider these as a separate project (or projects) because more extensive development would be needed to enable such engagements. While we support further consideration of this topic, based on discussions during the PCAOB's September 15th roundtable, it is unclear how strong the demand would ultimately be even for more limited auditor involvement and communication, such as whether the historical financial information included in earning releases or non-GAAP information agrees to the books and records subject to audit. Regardless, the PCAOB would need to develop more specific guidance for auditors; accordingly, consideration of increased auditor involvement with such information should be addressed separately. In addition, any proposal that increases the level of auditor involvement with such information — examination-level or otherwise — would also need to consider the appropriate legal framework being in place.

Clarification of the standard auditor's report

The Concept Release also discusses proposals to clarify certain language in the standard auditor's report. As discussed above and consistent with views expressed in the Concept Release, we believe the pass/fail model and standardized language of the auditor's report provide consistency, comparability, and clarity in auditor reporting and should be retained.

We also believe the Concept Release proposals to clarify certain language in the standard auditor's report will result in enhanced understanding of what an audit represents and the related auditor responsibilities, thus narrowing the expectations gap. These enhancements are consistent with our overarching principles, do not change the scope of the audit, would be free of incremental costs to implement, and could be achieved in the short term through the Board's standard-setting activities.

We identify below certain changes that we support conceptually. For specifics of suggested language and its location in the report, we are supportive of the illustrative language provided by the CAQ in its June 28th response letter, which also includes some items not addressed by the Board in the Concept Release. Also, the IAASB has explored other alternatives to the "core" elements of the IAASB standard auditor's report on the financial statements, and we would encourage the Board to work with the IAASB to ensure consistency, to the extent possible, related to the content and format of these "core" elements.

We agree that the addition of clarifying language related to the following concepts is appropriate:

- *Reasonable Assurance* – Clarify that reasonable assurance is a "high level of assurance, but not absolute assurance; therefore, an audit may not always detect a material misstatement."
- *Auditor's Responsibility for Fraud* – Add the words in boldface italics to the following sentence in the standard auditor's report to clarify the auditor's responsibility for fraud: "Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement ***whether due to error or fraud***."
- *Auditor's Responsibility for Financial Statement Disclosures* – Explicitly identify that the footnotes are an integral part of the financial statements and are covered by the audit report.
- *Management's Responsibility for the Preparation of the Financial Statements* – Provide an expanded discussion covering management's responsibilities for the financial statements, internal control over financial reporting, and the 10-K.
- *Auditor's Responsibility for Information Outside the Financial Statements* – Describing the procedures performed by the auditor on information outside of the financial statements would clarify the auditor's responsibility with respect to such information, and help reduce the expectations gap by addressing the misperception that the auditor's opinion covers such information.
- *Auditor Independence* – Identify that the auditor is independent within the meaning of all relevant SEC and PCAOB standards.

Other changes to the standard audit report, highlighted in the CAQ example provided in the June 28th letter, that we would support as being more beneficial to reduce the expectations gap are as follows:

- *Audit Committee Responsibilities* – Provide an expanded discussion covering audit committee responsibilities.

- *Addressing the Audit Report* – Address the audit report to the shareholders of the company in addition to the Board of Directors.
- *Professional Judgment* – Highlight the necessity of using professional judgment in assessing audit risks, in the selection of audit procedures, and the consideration the auditor gives to the issuer's internal control over financial reporting when responding to such risks.
- *Scope Limitations and Non-Compliance with U.S. Generally Accepted Accounting Principles (GAAP)* – Outline the auditor's responsibilities in the event a conclusion is reached that the financial statements are not in accordance with GAAP or in situations where audit scope is limited.
- *Material Misstatements & Assessment of Materiality* – Identify what is meant by the term "material misstatement" and discuss the approach used by the auditor to assess "materiality".
- *Clarifying that Audit Evidence is often Persuasive not Conclusive* – Clarify that the audit evidence the auditor obtains is often persuasive rather than conclusive.

Auditor's discussion and analysis (AD&A)

As discussed in the Concept Release, the AD&A alternative would require a supplemental narrative report that could provide users with a view of the audit and the financial statements "through the auditor's eyes."

We appreciate that additional insights or views related to the audit and the financial statements are desired by certain market participants but we believe the practical challenges and the unintended consequences that negatively impact audit quality and the overall financial reporting process cannot be overcome. As a result, we are not supportive of the AD&A alternative outlined in the Concept Release, as further discussed below. We also believe this would likely be the costliest and most time-consuming of the alternatives, diverting the attention of audit firms' resources from performing the audit to chronicling it, all at the risk of reducing audit quality. For the reasons described above, we believe the other alternatives are better solutions, without compromising audit quality.

Auditor's views regarding the company's financial statements

The AD&A approach would result in auditors communicating original information about the company, creating a fundamental shift from the auditor attesting to information provided by management to the auditor providing original information about the company. We believe this could result in several unintended consequences, including undermining the roles and responsibilities of the audit committee, management, and the auditor and further widening of the expectations gap.

Much of the information that the auditor would be required to disclose about the financial statements under the AD&A proposal, including, for example, management's judgments and estimates, accounting policies and practices, and difficult or contentious issues, including "close calls," is currently required to be discussed with audit committees. Communications between auditors and audit committees have become increasingly robust in recent years, improving the quality of both audits and financial reporting. We are concerned that a requirement for auditors to disclose their views about what are the more subjective areas of the financial statements may reduce the audit committee's and management's willingness to engage in an open and candid dialogue with the auditor, which is critical to the performance of a high-quality audit. Therefore, in our view, such a requirement has the potential to *reduce* audit quality and the quality of financial reporting. Such information, if required to be disclosed, should first be disclosed by the company. This is also consistent with the feedback received from the CAQ's RoA working group.

We also question what value users would find in the disclosure of matters that had been the subject of deliberation by the auditor and management, discussed with the audit committee and resolved. The key point from the perspective of users should be that such issues have been resolved to the satisfaction of the auditor in forming his or her opinion on the financial statements. If reported at all, such matters should be disclosed by the company.

The potential for an AD&A to present inconsistent or competing information between the auditor and management cannot, in our view, serve the public interest. On the other hand, as a practical matter, an AD&A requirement could force the resolution of inconsistent views prior to the issuance of the financial statements such that management and the auditor would make redundant, rather than competing, disclosures — resulting in increased disclosure overload.

Finally, we believe that AD&A disclosures would be highly susceptible to misinterpretation without the context of the dialogue that occurs between auditors, management, and audit committees. In requiring the auditor to provide the auditor's "perspectives" or "impressions" on management's judgments and estimates, accounting policies and practices, and difficult or contentious issues, including "close calls," the AD&A approach focuses on the subjective rather than the objective. When such matters are communicated by the auditor to the audit committee, the audit committee has the benefit of further discussion with the auditor to explore complex matters at the appropriate level of detail. Additionally, the audit committee has the benefit of periodic communications with the auditor throughout the year as well as information derived through its oversight of the financial reporting process, which also provide further context. Users lack the benefit of such information and periodic dialogue with the auditor to provide context for the information that would be communicated in an AD&A. As an example, AU 380.11 states that, "Objective criteria have not been developed to aid in the consistent evaluation of the quality of an entity's accounting principles as applied in the financial statements." Auditor communications with audit committees on that topic necessarily rely on the important dynamics involving auditor and audit committee discussions—an opportunity for dialogue that is not available to readers of the auditor's report.

Additionally, we believe it would be very difficult for audit firms to ensure any consistency in reporting related to an auditor’s “perspectives” or “impressions” on management’s reporting. One audit partner’s subjective opinion regarding a “close call” may differ significantly from that of another, which could result in unintended consequences for an issuer in comparison to its peers. Without consistency in what is communicated, the AD&A requirement would diminish the comparability between companies, including those in similar industries.

Information about the audit

Providing greater insight into the audit through a discussion of the significant risks identified by the auditor and the audit procedures and results responsive to those risks conceptually appears reasonable as discussed in the Concept Release. However, the practical challenges of implementing this type of reporting cannot be overcome. For example, fraud risks by definition are significant risks. In the auditing standards, the risk of management override and a presumption of improper revenue recognition are fraud risks for all engagements. Publicly disclosing the risks, procedures, and results related to these and other potential fraud risks may cause confusion and increase the expectations gap, as the auditor assessing fraud risks during an audit does not mean that fraud has occurred or even that the entity presents a heightened risk of fraud.

The disclosure of significant risks poses practical implementation challenges, regardless of whether they reflect fraud risks. Significant risks by definition are risks of material misstatement that require special audit consideration. This definition inherently and appropriately requires auditor judgment, both in terms of identifying significant risks and in terms of designing and performing procedures that are appropriately responsive. As a result, there could be multiple reasons why an auditor believes that something requires special audit consideration in the context of the particular circumstances of an engagement. This would lead to considerable variation in the risks disclosed among audit reports, and the lack of comparability would be confusing. These potential unintended consequences would have a negative impact on audit quality and, as discussed above, we believe that users would be better served by the auditor's use of emphasis paragraphs linked to significant judgments made by management instead of significant risks identified by the auditor.

For the same reasons discussed under the emphasis paragraph alternative above, we do not support disclosing audit procedures performed in response to significant risks. Such disclosures will either be too succinct and lead to misperception about the extent of the auditor's work, widening the expectations gap, or fully describe the auditor's response in a voluminous disclosure that would not be useful.

Lastly, the Concept Release contemplates an AD&A requirement for the auditor to discuss specific independence matters communicated to the audit committee under PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*. We believe a public discussion regarding independence in an AD&A is unnecessary due to the existing governance function of the audit committee to assess auditor independence, the external monitoring of auditor independence by the PCAOB, SEC and the firm itself, and existing means by which the auditor can communicate independence to users. Under current PCAOB standards, the auditor is required to be independent, and every auditor's report is required to be titled, "Report of Independent Registered Public Accounting Firm." We also support adding clarifying language to the standard auditor's report related to auditor independence as discussed in the "Clarification of the standard auditor's report" section of our letter. We believe a requirement to publicly communicate further detailed information regarding auditor independence could result in misinterpretations regarding the independence of the auditor.

Question 9 of the Concept Release discusses that some investors suggested that, in addition to audit risks, an AD&A should include a discussion of other risks, such as business risks, strategic risks, or operational risks, and asks "what are the potential benefits and shortcoming of including such risks in an A&DA?" Auditing Standard 12, *Identifying and Assessing Risks of Material Misstatement*, requires the auditor to obtain an understanding of the company's objectives, strategies and related business risks to identify business risks that could reasonably be expected to result in material misstatement of the financial statements. Given the relatively limited scope of the auditor's consideration of business risks, strategic risks, or operational risks in comparison to management's knowledge, it's not clear how the auditor's discussion of these risks would add value to users. Further, this proposal is inconsistent with the principle that information about the company should be reported by management or the audit committee. As a result, we are not supportive of these disclosures.

Other considerations

Cost considerations

With the exception of changing language in the standard auditor's report, implementing any of the alternatives would involve increased costs. We believe the appropriate analysis is whether the benefits of any given alternative outweigh the costs. We believe AD&A, which would require significant resources both to draft and to review, would likely be the most costly, and in our view also poses a threat to audit quality. Assurance engagements to expand auditor reporting to other information outside the financial statements would be an added cost but the benefits may outweigh it if the result is increased perceptions of the reliability of the information received. As discussed above, the incremental cost of a separate assurance engagement on MD&A could be limited by focusing on the CAE aspect of MD&A. Even mandated emphasis paragraphs would require preparation and review time and increased discussion with management and audit committees, thus resulting in incremental costs. Whether the potential benefits of various options exceed the incremental costs is ultimately a matter for the marketplace to determine.

Liability considerations

We believe many of the alternatives being considered involve a potentially significant increase in legal risks for auditors. It is therefore important that appropriate auditor liability protections are also considered. In particular, auditor liability reform should be linked to proposals that increase auditors' responsibilities related to information outside of the annual financial statements and enhance auditor transparency, both of which increase auditor exposure to litigation risk.

Suggested PCAOB Actions

Except for changes related to clarifying the standard audit report, we believe the PCAOB should consider the following actions before requiring any changes to the auditor's reporting model:

- Further develop the content of any changes to the auditor's reporting model through more detailed examples. Share these examples with all stakeholders, including a wide variety of users.
- Consider field testing as a mechanism to assess the feasibility and effectiveness of any changes prior to full-scale implementation.

In responding to Q30, whether the proposed alternative(s) should be applied to all financial statements filed by public companies, investment companies, investment advisers, brokers and dealers, and others depends on which alternative(s) the Board chooses to pursue. We believe the clarifications to the standard auditor's report should apply to all companies but the other alternatives may need to first be field tested before determining which audits they should apply to.

Conclusion

The time is right to enhance auditor reporting. Users' needs are more clearly articulated than ever before. Responding to those needs is critical to maintaining the value and relevance of the audit. Valuable enhancements can be made now that move us some way to achieving the goal of more informative and valuable auditor reporting.

As solutions are developed, it is critical that active, continuous and open dialogue among auditing standard-setters, regulators, investors, and other stakeholders occur. In particular, we urge the PCAOB to work in collaboration with the IAASB in relation to their respective consultation papers to develop solutions that work globally. Significantly different auditor reporting models in a global market is not in the public interest. Some flexibility between jurisdictions may be needed, but unnecessary differences in approach should be avoided.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact Michael J. Gallagher (973-236-4328), Brian R. Richson (973-236-5615) or Marc A. Panucci (973-236-4885) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP