

September 30, 2011

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

RE: Request for Public Comment: *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards*, PCAOB Rulemaking Docket No. 034

Members of the Board,

BlackRock, Inc. (“BlackRock”) appreciates the opportunity to comment on Public Company Accounting Oversight Board (“Board” or “PCAOB”) *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* dated June 21, 2011 (“Concept Release”). BlackRock is a global investment manager, overseeing \$3.66 trillion of assets under management at June 30, 2011. BlackRock and its subsidiaries manage approximately 3,400 investment vehicles, including registered investment companies, hedge funds, private equity funds, exchange-traded funds and collective investment trusts, in addition to separate accounts. Certain of BlackRock’s wholly-owned subsidiaries operate as U.S. registered broker/dealers, U.K. registered life insurance companies, a U.S. registered bank trust company and numerous investment advisory companies registered in jurisdictions throughout the world.

As an investment manager, BlackRock is in the position to provide commentary on the Concept Release from the perspectives of a) a corporate preparer, b) an investment fund preparer and c) a user (i.e., BlackRock’s research analysts). As such, our comments take into account all three of these distinct perspectives.

Overview

BlackRock’s analysts and many investors believe that the auditor’s report could be enhanced to provide more informative reporting. The auditor’s report currently includes a statement on the financial statements and periods covered, the scope of the audit, and a “binary” opinion as to whether such statements present fairly, in all material respects, the financial position and results of operations and cash flows of the company. The current reporting model does not provide additional context or insight around the audit or significant matters that the auditor may have addressed during the course of their audit. However, the current model does provide consistency, clarity of reporting and comparability and normally is taken in the context of other available information, including other disclosures accompanying the financial statements and management oral and written communications.

The goal to provide additional information to investors can be met in part by changes in the auditor reporting framework, with a focus on objective rather than subjective reporting, as noted below. However, financial statement preparers also have a responsibility to disclose information that meets professional and regulatory standards and that enhances understanding of a company’s financial position and results of operations. We believe it is preferable for preparers, and not the auditor, to be the original source of such disclosures about the company. We are

concerned that contradictory disclosures by a company and its auditor would undermine the financial statements and their utility; the onus should be on management to prepare such information and for the auditors to determine whether it is fairly stated in all material respects. Further clarification by the Securities and Exchange Commission (“SEC”) and the Financial Accounting Standards Board (“FASB”) on existing disclosure requirements would help achieve this objective.

The Concept Release requested comments on whether certain information communicated to the audit committee should be conveyed in an auditor discussion and analysis (“AD&A”). As noted below, we believe that management may elect to make such disclosures but it would be difficult to communicate in an audit report the full context of those discussions. Accordingly, we encourage the SEC and FASB to clarify existing management disclosure requirements over certain items, such as accounting judgments, or to suggest additional management disclosures. For example, the SEC could require expanded discussion by management of any significant deficiencies related to internal controls over financial reporting that are unremediated for an extended period of time.

BlackRock prepares corporate and subsidiary financial statements in many jurisdictions. Additionally, each of our sponsored investment company reports may be filed with regulators in multiple countries. Given the nature of global markets, it is critical that the PCAOB work with the International Auditing and Assurance Standards Board (“IAASB”) and the American Institute of Certified Public Accountants to minimize the confusion and expectation gap that may be created if different auditor reporting models are adopted.¹

The PCAOB proposed four alternatives in its Concept Release, which we address in the remainder of this letter.

Clarification of the language in the standard auditor’s report

We encourage the Board to undertake a standard-setting initiative to provide clarity about what an audit represents and the auditor’s responsibilities, including the following items:

- The definition of “**reasonable assurance.**” The auditor’s report should explicitly state that reasonable assurance is a “high level of assurance, but not absolute assurance.”
- Auditor’s **responsibility for fraud.** We support inclusion of language in the auditor’s report that is consistent with AU section 230 that clarifies that professional auditing standards require the auditor to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.
- **Auditor’s responsibility for financial statement disclosures.** We support inclusion of a statement in the audit report that clarifies the auditor’s responsibility for financial statement disclosures, including all notes to the financial statements and all related schedules.
- **Management’s responsibility for preparation of the financial statements.** The auditor’s report should be further clarified to state that management prepares the financial statements and has responsibility for their fair presentation.
- **Auditor responsibility for information outside the financial statements.** When other information is contained in documents containing audited financial statements, the audit report should note that the auditor has a responsibility to read the other

¹ The IAASB has undertaken a similar project, entitled *Enhancing the Value of Auditor Reporting: Exploring Options for Change*, dated May 2011.

information and consider whether such information, or the manner of its presentation, is materially inconsistent with the financial statements or represents a material misstatement of fact.²

- **Auditor independence.** We support inclusion of a statement that the auditor has a responsibility to be independent of the company and has complied with the applicable independence requirements of the PCAOB and SEC.

We note that including all of the aforementioned information would significantly lengthen the auditor's report and accordingly suggest that such information could be presented in separate and subsequent paragraphs to not overwhelm the core audit opinion. These clarifications should not result in a significant change in audit scope or increase in audit fees.

Required and expanded use of emphasis paragraphs

The Board should consider providing additional guidance that encourages, but does not mandate, emphasis of matter paragraphs in the auditor's report that focus the reader on the location in the financial statements of:

- Significant new financial statement disclosures,
- Significant transactions, including related party transactions,
- Significant management judgments, estimates and areas with significant measurement uncertainty, and
- Information about a significant acquisition and related financing.

This approach is similar to the "justification of opinion" required in auditor reports in France. We would not object to expansion of the emphasis of matter paragraph to reference the location of critical disclosures outside the financial statements, such as in management's discussion and analysis ("MD&A"). Certain additional objective, fact-based matters may be included in the emphasis paragraph at the discretion of the auditor, if not disclosed by management.

Auditor assurance on other information outside the financial statements

BlackRock supports auditor assurance on information outside the financial statements, such as earnings releases or MD&A, at the discretion of management. As noted above, auditors already are required to read information that is associated with the financial statements to be satisfied that such information is consistent with the financial statements.² We do not support mandatory assurance on such information, because of the incremental cost, which we believe may exceed the benefit, and the potential to delay earnings releases and other time-sensitive information. Our analysts have not routinely observed situations where such information has been improperly presented or where the disclosures are misleading. However, we recognize that some information outside the core financial statements, such as non-GAAP measures, may be important tools to users of financial statements and therefore assurance may be cost-beneficial. Some companies also may find value in having assurance on specific aspects of MD&A, such as critical accounting estimates, key performance indicators, key drivers of revenue (such as assets under management) or certain non-financial measures of performance. This approach would be consistent with our fundamental thesis that management should be the original source of financial statement disclosures.

² Procedures currently required by AU section 550.04-.06.

Auditor's Discussion and Analysis ("AD&A")

A supplemental AD&A that provides objective additional information could facilitate understanding of the financial statements taken as a whole. However, it may be difficult to provide enough context around certain issues, such as audit procedures performed and subsequent discussions with management and the audit committee. For example, many areas may require significant judgment and complex assumptions and calculations, including loan loss reserves, fair valuation of certain complex and illiquid financial instruments, litigation reserves, uncertain tax positions, or impairment analyses. However, there are some matters for which an AD&A discussion could be beneficial to financial statement users, including the following:

- Significant new accounting principles and whether they are preferable in the context of authoritative and regulatory guidance,
- Considerations in evaluating entities with going concern uncertainties, including observations on declining or concentrated cash flows or upcoming material financial obligations,
- Significant external information or inputs in performing audit procedures on significant accounting estimates,
- Matters related to auditor independence, including disclosure of the length of time the audit firm has been engaged by the company and other significant services provided to related parties outside the corporate audit that may not be disclosed in the proxy (e.g., audit fees paid by sponsored investment companies), and
- Audit procedures in material areas requiring significant judgment or with significant uncertainty (e.g., fair valuation, impairment of intangible assets – see the following paragraph).

We would not object to the identification in an AD&A of those areas which were subject to significant management or auditor judgment or significant uncertainty given their complexity, and the attendant significant audit procedures performed. We also would not object to disclosure of key inputs on which the auditor relied in performing their audit of those areas if those inputs are not disclosed by management. However, we are concerned that it may be difficult to convey succinctly the nature of those procedures in a manner that may provide useful information. We do not support auditor disclosure of a range of possible outcomes or estimates or other information that would blur the responsibility of management to prepare financial information and of the auditor to perform audit procedures to determine the reasonableness of the financial statements taken as a whole. Similarly management, and not the auditor, should provide any forward-looking information on the business, its assessment of operational risks and where appropriate, any additional information on accounting estimates. An AD&A should not be required if the auditor does not have any significant matters to communicate. This caveat is particularly important to entities with less complex financial reporting, such as certain investment companies.

Note that many of the matters that might be covered in an Auditor AD&A also may be required pursuant to the critical accounting estimates guidance within FR-72 *Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*. The SEC could achieve some of the objectives of an auditor AD&A by clarifying and expanding management disclosure responsibilities in FR-72 or by requiring additional disclosures in the risk factors section of Form 10-K. They also could require that certain disclosures now contained in Regulation S-K be relocated to Regulation S-X where, as financial statement disclosures, they would be subject to greater scrutiny. To the extent that additional information would be useful to users of financial statements, such as disclosure of a range of estimates for significant accounting estimates, or ongoing significant deficiencies in internal controls, the SEC and FASB should work together to define the parameters.

BlackRock does not support disclosure of “close calls” by management or auditors because the term and any such disclosures may imply a failure to adopt sound accounting principles or to make an appropriate accounting determination, when in fact preparation of financial statements involves judgment and use of estimates. We also do not support disclosure of a dollar materiality threshold used by management in preparing, and the auditor in auditing, the financial statements. However, we support further efforts by the PCAOB to determine how financial statement preparers can describe the factors they consider in assessing materiality in the context of specific financial statement items and disclosures (e.g., net income, certain significant accounts).

Auditors should not be required to disclose matters communicated to the audit committee given the confidential nature of those communications and the risk that such disclosures could be misinterpreted without proper perspective and background. Reports to the audit committee normally are in the context of communications over an extended period, are accompanied by written and oral materials, and involve questioning and detailed responses that could not be sufficiently conveyed in an AD&A. We are concerned that mandatory disclosure in an AD&A of matters communicated to the audit committee could have the undesirable effect of limiting those communications.

Given the significance and breadth of the proposed changes, we strongly urge the PCAOB to perform field tests to help ensure that any proposed changes are practical and useful to users of financial statements and that they can be implemented in a cost-effective manner. It also would be useful to obtain input from auditors as to whether they are able to develop AD&A disclosures that would meet their internal quality control guidelines. Finally, we reiterate the need for a coordinated approach between the PCAOB, AICPA, SEC, FASB and IAASB to ensure consistency and due consideration of the implications of any changes to users and preparers of financial statements.

We appreciate the opportunity to share our viewpoints relating to the possible revisions to the PCAOB standards related to reports on audited financial statements. We hope our comments are helpful to the Board. If the Board has any questions regarding our comments, please contact Steven Buller at (212) 810-3501.

Sincerely,

Steven E. Buller
Managing Director