MERITOR

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

In regards to*: 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. 34*

Dear Public Company Accounting Oversight Board,

Meritor, Inc. ("We") appreciates this opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "the Board") 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.* We are supportive of certain proposed clarifications to the auditor's report, however would like to share our reservations on the proposed rule.

The following are our comments on the potential direction of the proposed standard-setting project on the content and form of reports on audited financial statements:

Form of the Auditor's Report

We are in favor of the Board seeking input from investors, auditors, issuers, and other interested parties regarding their views on how to make the report more meaningful to users of financial statements. In the wake of the financial crisis, investors and independent commentators have been highly critical of the auditors for these failures and of regulators for failing to hold them accountable. The undertaking of improving the information provided and the language used in the auditor's report is recommended to improve investor confidence in the process.

In our opinion, the Board should retain the 'pass/fail' model on the auditor's report. The auditor's report is not the best place to go into details of operations, financial condition or other matters affecting a company's business in short and long-term periods. The purpose of a financial statement audit is to express an opinion on whether the financial statements meet the requirements of the underlying accounting framework and the auditor's report should continue to focus on the outcome of the audit performed with this purpose. If additional information is required to be presented in the auditor's report beyond what is currently provided in the 'pass/fail' model of the report, the auditors would generally be required to enhance the scope of their engagements significantly. The increase in the scope of audit engagements would result in significantly higher audit costs. In addition, auditor's responsibility with respect to financial statements would need to be further clarified if significant additional qualitative information is presented in the auditor's report.

Management is the most appropriate party to provide detailed information regarding a company's operations, financial condition and other matters to financial statement users. Management has the necessary insights into the industry in which the company operates, related risks and the company's business strategies to address those risks. The focus of financial statement auditors should continue to be on whether the financial statements are presented in accordance with the underlying accounting framework. While performing audit procedures on financial statements, an auditor gains significant insights into a company's operations. In our opinion, this information should be used by the auditor in assessing if the company has made appropriate disclosures required by the accounting framework and the Securities and Exchange Commission rules.

Investors should be able to obtain all necessary disclosure information about a company's results of operations, financial position and cash flows from the footnote disclosures that are required by the financial reporting framework. Investors should not be left to rely on an auditor for such information. We believe that company management is responsible for providing accurate and meaningful information to its investors.

The standard auditor's report could be modified to provide clarification on the following:

- Auditor's Responsibility: Clarification is needed to minimize the difference between how auditors perceive their role and how financial statement users perceive it. The standard report states the auditor's responsibility is to express an opinion on the financial statement based on their audit. We propose including additional language in the auditor's report stating auditors are responsible for detecting material misstatement due to errors or fraud.

- Reasonable Assurance: The standard auditor's report states an audit is performed to obtain reasonable assurance about whether the financial statements are free of material misstatements. Some users may not understand the level of assurance intended to be conveyed by this statement. Therefore, a definition of reasonable assurance could be included in the standard report to increase the comprehensibility of the report.

Auditor's Discussion and Analysis

We do not believe that the Auditor's Discussion and Analysis (AD&A) would be beneficial in providing any additional information about a company's operations, its financial condition or other matters. We believe that the incremental reporting in the form of AD&A is likely to cause confusion on the part of users of financial statements without a corresponding benefit. In addition, we believe the introduction of AD&A would lead to confusion among financial statement users about responsibility of the auditor vis-à-vis management.

Management's Discussion and Analysis (MD&A) currently provides most of the information utilized by investors, analysts and other interested parties. AD&A would not provide anything additional that is not currently available to investors. In case additional information is considered necessary for use by the investment community, this could be provided by enhancing discussion in the MD&A.

Auditors, by their training and experience, are best suited to provide assurance specific to accounting framework related matters and are not analysts, investment advisers or business commentators. In general, the auditors are not trained to evaluate and communicate a company's business and strategic risks. Therefore, adding AD&A to their reporting requirements would increase the complexity of the audits and would dilute and delay the timely delivery of financial statement audit services provided by the auditors.

Furthermore, the addition of AD&A to auditor reporting requirements would significantly increase the cost of a financial statement audit, which, in our opinion, will not justify the benefits provided to investors.

Required and Expanded use of Emphasis Paragraphs in Auditor's Report

We do not believe a required and expanded use of an emphasis paragraph in the auditor's report would enhance the usefulness of the auditor's report. Current accounting frameworks do include disclosure requirement about significant matters affecting a company's business, including the following:

- Significant accounting policies used in preparing the financial statements,
- Significant judgment and estimates made by management, and
- Areas with significant measurement uncertainty.

Any additional areas where enhanced disclosures are considered necessary should be included in the accounting framework rather than incorporating them in the auditor's report in the form of an emphasis paragraph. Such additions to the financial statement disclosure requirements could include areas where significantly diverse accounting treatments are available under the current accounting framework and are used by others in a company's competitive environment.

We are also not in favor of including discussion in the auditor's report about audit procedures performed by the auditor in arriving at their audit conclusions. We believe this information would not provide any useful information to the financial statement users since the independent auditor is engaged on behalf of investors as an expert in accounting and auditing.

Auditor Assurance on Other Information Outside the Financial Statements

Under the current auditing standards, auditors provide limited assurance on information disclosed in the MD&A. We do not believe auditors should be required to provide audit level assurance on information outside of the financial statements, including the MD&A, as an alternative for enhancing the auditor's reporting model. As discussed previously, the auditors by their training and experience are best suited to provide audit level assurance on matters reflected in financial statements as they relate to an accounting and financial reporting framework and those related to a company's internal control environment.

For information disclosed outside of the financial statements, it may be difficult to design and perform appropriate audit procedures and obtain sufficient audit evidence. These matters involve significant management judgment based on in-depth knowledge and experience accumulated over long periods of time. Requiring an audit of such matters would introduce significant challenges in the day-to-day business management processes and it may be difficult for the auditors to provide objective assurance on these matters.

We would welcome the opportunity to further discuss our comments in this letter.

Sincerely,

Kevin Nowlan

Kevin A. Nowlan
Vice President and Controller
Meritor, Inc.