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Office of the Secretary, PCAOB
1666 K Street, NW
Washington, DC 2006-2803

Re: Proposed Auditing Standards - PCAOB Release No. 2013-005
Rulemaking Docket Matter No. 034

The Canadian Bankers Association[1] ("CBA") appreciates the opportunity to respond to the Public Company Accounting Oversight Board's ("PCAOB") proposal for two new auditing standards, *The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion*, and *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report*, issued on August 13, 2013.

The CBA is an industry association representing 57 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada, including 5 domestic bank members that are publically listed foreign private issuers registered with the Securities and Exchange Commission ("SEC") with a combined market capitalization over $350 billion. The CBA advocates for effective public policies that contribute to a sound and successful banking system that benefits Canadians and Canada's economy. Our members are keenly interested in maintaining and improving the efficiency and effectiveness of the capital markets both domestically in Canada and in foreign jurisdictions where our members operate. We believe that the auditor, including the format of their report, plays a key role in this regard.

We are pleased that the PCAOB is looking to improve upon the current pass/fail model. However, we believe the changes as currently proposed may not achieve these objectives and may result in unintended consequences. Specifically, we are concerned about the inclusion of critical audit matters ("CAM") within the audit report.

Audit committee members are uniquely qualified to oversee and assess the quality of the auditor and the adequacy of financial statements and related disclosures on behalf of an organization's shareholders. They have access to both management and auditors in assisting their assessment of whether CAMs are appropriately resolved, reported and disclosed.

To facilitate more efficient capital allocation, lower the average cost of capital and reduce the risk premium associated with securities, sufficient context would need to be provided in the auditor's report. Investors that do not have the same access to management and the auditors may misinterpret the new disclosures. We do not believe that the level of detail that would have to be provided to achieve this objective is practical, both from a competitive and a legal liability perspective. Instead, we expect standard disclosure templates to develop over time.

[1] The Canadian Bankers Association works on behalf of 57 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 275,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. www.cba.ca.

In an attempt to pursue this amicable objective, we anticipate significant increases in audit fees in response to the increased disclosure and additional audit effort required to evaluate other information covered by the auditor's report. These increased costs are anticipated to outweigh investors' short term benefits from additional disclosures.

Our specific comments are covered in more detail within the remainder of this letter.

Expand the current pass/fail nature of the auditor's opinion to include a discussion of critical audit matters that would be specific to each audit

We are not supportive of PCAOB's proposal to include a discussion of CAMs in the Auditor's Report. In our view, audit committees, which are made up of qualified individuals are elected by shareholders to represent their best interests, and are in the best position to assess whether CAMs are appropriately resolved, reported, and disclosed. Audit committees have access to both management and the auditors which enables them to have open and interactive discussions to fully understand and evaluate CAMs, and how they are addressed within the audit process. This is critical as the audit process is subjective in nature allowing for individual items and items in aggregate to be evaluated within the context of the entity, its business, and its internal control environment. CAMs must be reviewed and assessed in their totality, which is currently facilitated through audit committees.

The audit committee's function is supported by the PCAOB and other audit regulators, including the Canadian Public Accountability Board ("CPAB") by regulating required minimum communication matters by auditors to audit committees. These communications are monitored by the PCAOB, CPAB and other jurisdictional audit regulators through both audit firm reviews and file inspections. These processes assist audit committees in ensuring significant matters are discussed and evaluated.

Furthermore, we believe the information regarding disclosure of CAMs is available within the Critical Accounting Matters section of the Management Discussion and Analysis (MD&A) and the financial statement notes, including key risks of the organization and areas of significant areas of judgment including, for example:

- Special purpose entities;
- Fair value of financial instruments;
- Allowance for credit losses;
- Employee benefits;
- Goodwill and other intangibles;
- Securities impairment;
- Derecognition of financial instruments;
- Income taxes; and
- Provisions.

As a result, including the information within the auditor's report will result in additional repetitive disclosures.

The current model, supported by the provision of enhanced information by the PCAOB on audit firm reviews and file inspection results would have a more beneficial impact than updating the auditor's report with CAMs.

The PCAOB indicated in the release that the recommendations will result in more efficient capital allocation and will lower the average cost of capital for most companies, effectively reducing the risk premium investors require to invest in equities. There will need to be a delicate balance of information sharing, so as to not include proprietary client information, yet provide enough information to drive capital flow to/from the auditors' clients. From a preparer's perspective, disclosure to an outside party about the resolution of critical audit matters could result in the possibility of misinterpreting this information as there is no mechanism to enable outside users to have the same level of interactive discussions as is currently had by audit committees with their banks' independent auditors. This could have a significant impact on a

Bank, if for example an auditor included going concern as a critical audit matter which was not included in the audit reports for competitor banks. This could lead to a run on a bank, effectively eroding capital, causing a bank's failure. Since audit firms are expected to have the propensity to reduce their audit risk through increased disclosure; they are in direct conflict with the needs of preparers in certain scenarios. We expect that this will eventually lead to consistent disclosure within industry groups that pose reduced risk to audit firms. Accordingly, as time progresses, we expect any differentiation from a capital allocation and cost of capital perspective among their clients that may arise in the short run to disappear in the long run.

Expanding the matters that the auditor is required to report on will also increase an issuer's and its director's and officer's potential liability driven by the potential misinterpretation of the incremental disclosure by investors, as they have a civil liability for material misrepresentation or omissions in an issuer's annual report, including in relation to the context of expert reports.

The PCAOB proposal is similar to the International Auditing and Assurance Standards Board ("IAASB") proposal; however, some of the terms and definitions differ. For instance, the PCAOB asks for "critical audit matters" be disclosed, compared with "key audit matters" as defined by the IAASB. This could result in two different reporting models and divergent views in some instances with respect to what key matters are disclosed. This creates unnecessary complexity for both users and preparers operating in the global market and reduces comparability of financial statements across geographic regions. The PCAOB and the IAASB should consider converging the guidance to achieve a valuable global standard that all investors and prepares can adhere to and more easily interpret.

Although the information regarding critical audit matters is currently available, we believe there will be substantial costs, especially in the first year of implementation, stemming from drafting the report, oversight and review of the new report, increased validation over completeness, and accuracy of CAMs that are now not only subject to governance structures, but also public disclosure.

For the reasons noted above, we do not see incremental value in disclosing CAMs within the auditor's report, and instead see more value in continued transparency by audit committees who are responsible for the oversight of their auditors on behalf of shareholders.

Inclusion of an auditor's statement relating to auditor independence within the Auditor's Report

We are indifferent to this proposal, although we believe it is redundant, as the current auditor's report is labeled "Report of Independent Public Accounting Firm." In our view, investors are currently relying on audit committees to perform their fiduciary duty in assessing the qualification and independence of the auditors and the PCAOB to monitor firm's compliance with SEC and other jurisdiction's independence regulations.

Inclusion of auditor's tenure within the report

We anticipate investors would derive value from having information regarding auditor tenure; for example, when a change in auditor has occurred. In those instances, they may inquire of management what prompted the change (e.g., disagreement with management regarding an accounting treatment). Our preference would be to include the information within another public document as it has no impact on the auditors' opinion on the financial statements, and in particular if a statement of independence is included in the auditor's report.

Auditor's evaluation of other information outside of the audited financial statements

Auditors are experts in financial information and controls over financial reporting. We are concerned that expanding the scope of their responsibilities beyond financial information included in the MD&A and other documents will go beyond their current training and area of professional expertise. Currently, auditors review the MD&A and other information incorporated by reference pertaining to registration statements and prospectus filings. The focus of this review is on the financial statements, related tables, exhibits and disclosures. Any inconsistency would be investigated and corrected or reported on where appropriate.

We are supportive of clarifying this role within the auditor’s report without expanding their current responsibilities.

The proposed standard changes the auditor’s responsibility for the information presented outside the financial statements from “read” and “consider” to “read” and “evaluate” whether the other information included in documents containing audited financial statements is materially inconsistent with information appearing in the financial statements, or includes a material misstatement of fact. This change will require the auditor to obtain evidence, and as a result this will substantially increase procedures and costs. Given the additional information provided in annual reports envisioned to be covered (financial data, MD&A, exhibits, and other regulatory filings), we anticipate the costs would be significant and outweigh the benefit of these procedures. For banks in particular, there is significant disclosure regarding capital, and risk-weighted assets in the MD&A, some of which are not currently audited and would significantly increase audit costs if required to be audited. As there is no objective set of standards to which the auditors can evaluate the disclosure against, this will lead to a significant area of audit judgment. If the amount of work required to audit information not currently audited in the MD&A becomes too high, it may reduce the motivation for management to report the information in the first place.

In addition to the audit costs, we anticipate additional costs as a result of the increased liability for experts (including auditors) who have civil liability for material misrepresentations or omissions in an issuer's annual report. Expansion of the matters the auditor is required to report on and potential misinterpretation of the disclosure will increase the auditor’s potential liability. Issuers' audit costs will increase to compensate for this increased liability and/or work effort required to sufficiently mitigate their increased audit risk.

The minimal additional level of comfort to investors is not anticipated to outweigh the additional costs discussed above. As a result, we are not supportive of the proposal. As noted above, we do support clarifying the auditor’s role under current standards within the auditor’s report.

We would be pleased to discuss any questions you may have on our comments.

Sincerely,