

December 11, 2013

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

**RE: PCAOB Rulemaking Docket Matter No. 34; PCAOB Release No. 2013-005; Proposed Auditing Standards – The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor’s Report, and Related Amendments to PCAOB Standards**

Ladies and Gentlemen:

FMR LLC, commonly known as Fidelity Investments (“Fidelity”),<sup>1</sup> appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board (“PCAOB”) with respect to its Proposed Auditing Standards on *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (the “Proposed Auditor Reporting Standard”); *The Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor’s Report, and Related Amendments to PCAOB Standards* (the “Other Information Standard”) collectively the “Proposed Standards”.<sup>2, 3, 4</sup> Our comments reflect the views of a diversified financial services company and address the application of the Proposed Standards on open-end investment companies (“mutual funds”) registered under the Investment Company Act of 1940 (“40 Act”), clearing and introducing broker-dealers (“broker-dealers”) registered with the U.S. Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 (“34 Act”), as well as insurance

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<sup>1</sup>Fidelity is one of the world’s largest providers of financial services. Fidelity provides investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 financial intermediary firms.

<sup>2</sup>See *The Auditor’s Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion; The Auditor’s Responsibilities Regarding other Information in Certain Documents Containing Audited Financial Statements and The Related Auditor Report; and Related Amendments to PCAOB Standards*. PCAOB Release No. 2013-005 (August 13, 2013). Available at: [http://pcaobus.org/Rules/Rulemaking/Docket034/Release\\_2013-005\\_ARM.pdf](http://pcaobus.org/Rules/Rulemaking/Docket034/Release_2013-005_ARM.pdf)

<sup>3</sup>Fidelity previously commented on the PCAOB’s Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to the PCAOB Standards. PCAOB Release No. 2011-003 (June 21, 2011). Available at: [http://pcaobus.org/Rules/Rulemaking/Docket034/Concept\\_Release.pdf](http://pcaobus.org/Rules/Rulemaking/Docket034/Concept_Release.pdf)

Fidelity comment letter available at: <http://pcaobus.org/Rules/Rulemaking/Docket034/109.pdf>

<sup>4</sup>Fidelity generally agrees with the comments submitted by the Investment Company Institute and Independent Directors Council on the Proposed Standards and offers the following comments to supplement that letter on specific issues.

entities required to file financial information with the SEC under both the '40 Act and the Securities Exchange Act of 1933 ("33 Act").

**Overview:**

Fidelity believes that any changes to the Independent Auditor's Report issued by a Registered Public Accounting Firm (Auditor's Report) associated with a public company's financial statements should be guided by the principle that the opinion must provide a clear, concise and unambiguous message regarding the scope of the audit, the responsibility of the auditor and their conclusion reached in order to ensure the continued confidence of investors. We support changes to the Auditor's Report that clarify the scope of the audit, will not create confusion about the opinion rendered by the auditor, and avoid redundancy of disclosures already included in the financial statements that are evaluated by the auditor, such as significant judgments, estimates and assumptions. Any changes should also balance the benefit of such changes with their potential costs including impacts to audit fees, time spent by management and the audit committee to consider auditor communications and also on the ability of companies to meet financial statement regulatory filing deadlines.

We offer the following suggestions that we believe will further enhance the Proposed Standards:

- Critical Audit Matters should not be included in the Auditor's Report. These disclosures may confuse investors and financial statements users with respect to the roles of the auditor, management and the audit committee, who has ultimate responsibility to oversee the audits and select the auditor for investment companies, broker-dealers and insurance separate accounts.
- Auditor Tenure should not be included in the Auditor's Report. While there is no clear link between tenure and audit quality, we believe users of financial statements may view this information as an indicator of audit quality, and place less confidence in the opinion rendered by the auditor; and
- The PCAOB should limit the scope of audit procedures around Other Information to items related to the financial statement audit and maintain the current requirement to "read and consider" such information.

Each of these items is discussed in detail below.

Critical Audit Matters

The Proposed Auditor Reporting Standard would retain the existing "pass/fail" model and other basic elements of the current Auditor's Report. To make the Auditor's Report "more informative, thus increasing its relevance and usefulness to investors and other financial statement users", the Proposed Auditor Reporting Standard would also require auditors to provide additional information, such as "Critical Audit Matters" to investors and other users of the financial statements in the Auditor's Report. Critical



Audit Matters include those matters the auditor addressed during the audit of the financial statements that involved the most difficult, subjective or complex auditor judgments or posed the most difficulty to the auditor in obtaining sufficient appropriate audit evidence for forming an opinion on the financial statements. In addition to identifying each Critical Audit Matter, the auditor must also describe the considerations that led the auditor to classify the matter as a Critical Audit Matter and when applicable, cross-reference the relevant financial statement accounts and disclosures in the notes to the financial statements that refer to the Critical Audit Matter.

*Disclosure of Critical Audit Matters will confuse investors and other of financial statements s and may erode their confidence to invest*

We recommend that the PCAOB not adopt the proposed disclosure of Critical Audit Matters because we are concerned that shareholders of registered investment companies, separate accounts and customers of broker-dealers would be unsure of how to incorporate this information into their investment decision making. Today, there is an existing regulatory infrastructure supporting shareholders' interests that charges audit committees of boards of directors to select the auditor of the companies for which they serve, oversee the audits and ensure that financial statement audit issues are appropriately resolved. This existing infrastructure provides investors and other users of the financial statements with confidence in the integrity of investment products offered in the United States. We believe that communication of Critical Audit Matters will confuse investors and other users of the financial statements about how to respond to these disclosures and may erode their confidence, given the reliance they place on audit committees and boards to look out for their best interests.

If investors and other users of the financial statements were left to interpret Critical Audit Matters disclosures on their own, we believe this information will likely create confusion and introduce ambiguity concerning the auditor's opinion on the financial statements. Investors and other users of the financial statements may likely misinterpret the communication of a Critical Audit Matter, including considerations made by the auditor to arrive at a Critical Audit Matter, as an indication of a qualification of the Auditor's Report, therefore weakening the unqualified opinion. To avoid ambiguity, this information would need to be accompanied by a description of the procedures performed by the auditor that enabled the auditor to gain comfort with, and ultimately arrive at an unqualified opinion. However, the sheer volume of additional disclosure that may be needed to achieve this goal would conflict with our recommended guiding principle noted above.

*Critical Audit Matters communications will increase fund audit fees and place pressure on regulatory deadlines*

Communication between an auditor and an audit committee is an essential and required aspect of an effective and efficient audit. We do not anticipate additional costs to identify Critical Audit Matters, as this activity would occur during the normal course of audit procedures. However, we believe the auditors will incur additional cost to develop and review their opinion and communicate the details of their report to



management and the audit committee. We believe that these incremental costs will be borne by the shareholders that are already benefitting from the ongoing governance and oversight of the audit committee, among other entities, in place to protect their interests.<sup>5</sup>

*Critical Audit Matters will duplicate management disclosures*

We are concerned that auditor communications of Critical Audit Matters would be duplicative of information already provided to investors and other users of the financial statements. Existing disclosures either within the financial statements or other documents required by the SEC or other regulatory bodies already provide sufficient information related to matters that may qualify as Critical Audit Matters. These matters include the disclosure of critical accounting policies, significant estimates, business and operating trends (such as is with the prospectus or Computation of Net Capital pursuant to Rule 15c3-1 and the Computation for Determination of Reserve Requirements, pursuant to Rule 15c3-3 under the '34 Act), as well as other financial and operating risks. Fidelity believes those targeted risks for investment companies, broker-dealers and insurance entities are extensively disclosed within an existing reporting framework. Providing Critical Audit Matters will likely be repetitive of information already provided by management and not provide incremental benefit to investors and other users of the financial statements.

Other Clarifying Language within the Auditor's Report

Fidelity supports the new information requirements in the Proposed Auditor Reporting Standard that help clarify for investors and other users of the financial statements what an audit represents, as well as an auditor's responsibilities. We believe that including information in the Auditor's Report such as the auditor's responsibility for the financial statements, including the related notes and schedules (if applicable) and the description of the nature of an audit, will help clarify which components of the financial statements have been audited by the independent registered public accounting firm. We also believe that it is important to highlight the auditor's responsibility for fraud resulting in material misstatements to the financial statements and the auditor's independence. All of these proposed changes should bring value to the Auditor's Reports at minimal cost.

Auditor Tenure Information

Fidelity objects to including a statement expressing auditor tenure in the Auditor's Report. We believe that users of financial statements may place undue emphasis on this data point as a positive or negative indicator of audit quality, despite the fact research studies draw contradictory conclusions on the impact of an auditor's tenure on audit quality. If the PCAOB ultimately concludes that a statement expressing auditor tenure should be included in the Auditor's Report, we are concerned that this information for mutual funds in a mutual fund complex may not provide an accurate representation of

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<sup>5</sup>Fidelity believes that disclosure of Critical Audit Matters may ultimately impact the frequency of currently established audit committee communications under CFR 210.2-07, facilitating quarterly communication between the auditors and audit committee of investment companies.

tenure. Mutual fund auditors are typically hired to audit all funds or a subset of funds advised by a particular manager. Under the current proposal, disclosing audit tenure for a newly commenced fund may not accurately address the auditors' overall tenure with the mutual fund complex, which may exceed the period listed within the Auditor's Report.

### Operational Challenges

Fidelity urges the PCAOB to consider the significant operational challenges associated with adding Critical Audit Matters and auditor tenure information to the Auditor's Report. These challenges are particularly acute for mutual fund advisers who may have hundreds of mutual funds under management and dozens with the same period end reporting requirements. It is also common practice within the mutual fund industry, to present multiple mutual funds within a single financial statement book, to which the auditor's opine in a single Auditor's Report. If mutual funds are required to include different audit tenures and critical audit matters for each fund individually, the length of the Auditor's Report will expand superfluously. Moreover, we believe that investors and other users of the financial statements will be confused as to how to interpret multiple auditor tenure dates within the same fund family. If implemented, Fidelity asks the PCAOB to clarify the application of this proposal to specific mutual fund topics, including those noted above.

### **Proposed Other Information Standard**

The PCAOB's Other Information Standard is intended to improve the auditor's procedures and enhance the auditor's responsibilities with respect to other information contained in a reporting entities annual filing, other than the audited financial statements and the related auditor's opinion.

Fidelity recommends that the PCAOB further consider the scope of procedures to be performed under this standard and suggest, in the case of mutual funds, that this information be limited to Management's Discussion of Fund Performance ("MDFP"), Shareholder Expense Example and Performance reporting. This approach will limit the auditor's review to information that is governed by SEC guidance,<sup>6</sup> is derived from information included in the financial statements, and is objective, verifiable and absent subjective or forward-looking statements.

Fidelity further encourages the PCAOB to exclude from their final Other Information Standard any exhibits filed that contain non-financial information, which in the case of a mutual fund's N-CSR includes the fund adviser's Code of Ethics, advisory contracts, presentation of non-audit services, and trustees and directors information, including any applicable information incorporated by reference. These documents while contributing minimal financial information, may be lengthy or potentially superseded by information updated subsequent to the audit period and will require a substantial use of auditor resources to review. Fidelity does not believe that additional audit procedures

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<sup>6</sup>Item 27(b)(7) of Form N-1A



performed on this information will be useful to investors and other users of the financial statements in their review of financial statements and this additional review and work will substantially increase audit costs to fund shareholders.

*Challenges to executing procedures within the Other Information Standard*

Fidelity does not support the requirement to use the term “should evaluate” when defining procedures auditors are required to perform on “other information”. This term replaces the existing terms codified in AU sec. 550 of “should consider”. The PCAOB explains, within its discussion of the Other Information Standard, that the words “should evaluate” are used in PCAOB standards when the auditor is expected to come to a conclusion based on the performance of certain procedures. The proposal is also clear in its requirement that auditors identify material inconsistencies and material misstatements of fact based on relevant evidence obtained and conclusions reached during the audit. We are concerned with the auditor’s ability to effectively meet the requirement to “conclude through evaluation” while adhering to language within the same PCAOB proposal that requires the auditors to use only information and evidence ‘already obtained’ rather than perform procedures ‘to obtain’ additional evidence. Fidelity believes that as a result of this change, any auditor’s attempts to achieve the goal of this proposal by either increasing auditing procedures or to draw conclusions from audit procedures already performed may prove to be burdensome to financial statement preparers when working with their auditors. Fidelity believes the PCAOB’s is effectively creating a requirement for auditors to conclude, but not allowing auditors an efficient mechanism to achieve this conclusion.

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Fidelity thanks the PCAOB for considering our comments. We would be pleased to provide any further information or respond to any questions that you may have.

Sincerely,



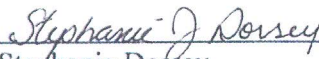
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