



December 11, 2013

Public Company Accounting Oversight Board  
Attention: Office of the Secretary  
1666 K Street, NW  
Washington, DC 20006-2803

Re: Docket Matter No. 034 - Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments

Ladies and Gentlemen:

TIAA-CREF appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") proposal for *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* ("the Proposal").

TIAA-CREF is the leading provider of retirement services in the academic, research, medical and cultural fields. We manage over \$540 billion in retirement assets as of September 30, 2013 on behalf of approximately 3.8 million participants and serve more than 15,000 institutions.

In particular, Teachers Insurance and Annuity Association of America ("TIAA"), along with its two subsidiaries, TIAA-CREF Investment Management, LLC ("TCIM") and Teachers Advisors, Inc. ("TAI"), each registered investment advisers under the Investment Advisers Act of 1940, as amended, manage approximately 79 registered investment vehicles, which include investment companies registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and a real estate life insurance separate account that is a registrant under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and makes a continuous offering of its securities registered under the Securities Act of 1933, as amended (the "Securities Act"). In particular, TIAA, TCIM and TAI manage investment vehicles registered with the U.S. Securities and Exchange Commission (the "Commission") under one or more of the Commission's reporting regimes above totaling approximately \$297 billion in assets under management.

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As a large investment manager, TIAA-CREF is in a position to provide commentary on certain aspects of the Proposal both from the perspective of a preparer and a user of financial statements. Overall, we support the PCAOB's efforts to provide additional transparency to financial statement users. However, we are concerned as to the precise manner in which the Proposal intends to accomplish this goal. Over the past few years, there has been a proliferation of disclosure requirements from regulators and standard setters seeking this exact objective. Generally, these enhanced standards, including the certification requirements, which have resulted from the Sarbanes-Oxley Act of 2002, have increased the investing public's confidence in the quality of registrants' financial statements and more generally, non-financial statement disclosures upon which informed investment decisions rely.

Given these positive developments over the past decade, we feel that investors currently have far more insight into the operating businesses and funds in which they invest, including increased confidence in the internal and disclosure control environment which underlies the preparation of filings with the Commission. While we support and seek to provide comprehensive and transparent information to investors, we believe that any new proposed standards that impact registrants and other key stakeholders, such as independent registered public accountants, should take into account the incremental additional clarity for, and confidence gained by, the investing public associated with the proposal, while at the same time assess the risk of investor confusion, disclosure overload and redundancy, and the application of resources in support of such efforts. In the case of the Proposal, we are concerned that certain of the proposed standards do not provide meaningful benefit, in particular as the Proposal seeks to further push existing disclosures into the hands of auditors, which further blurs the lines as to management's and the auditor's ultimate involvement and areas of responsibility.

### ***I. Critical Audit Matters***

As users of financial statements, we support the concept of communicating critical audit matters. However, we believe the enhanced communication should be more targeted than the Proposal appears to contemplate. Such communication should manifest itself in the expansion of the auditor's "emphasis of a matter" in its report. The communication of certain matters related to one time transactions would be useful and is typically well disclosed in the notes to the financial statements, but would gain further prominence if included as an emphasis of a matter in the auditor's report.

As a practical matter, we are concerned that the Proposal’s communication of critical audit matters will become “boilerplate” and not useful. It would seem for the most part a registrant’s or fund’s financial statements would remain relatively static, outside of specific nonrecurring transactions as discussed above (which may or may not result in a critical audit matter). It would therefore stand to reason most companies would have no critical audit matters or would substantially have the same critical audit matters after the initial year of adoption of the Proposal, withstanding nonrecurring transactions. If this would be the ultimate evolution of the Proposal, we believe this required communication would not be useful for investors.

In order to avoid boilerplate language, we encourage the PCAOB to clarify that routine matters discussed with boards of directors or audit committees and comprehensively disclosed in the financial statements may not be considered as a critical audit matter. While matters such as these may require substantial audit effort or significant auditor judgment they may not represent significant audit issues.

Further, we are concerned that some investors may misinterpret the communication of a critical audit matter as a de-facto qualification of the auditor’s opinion even though the proposed auditor’s report would state that the opinion on the financial statements is not modified with respect to any of the critical audit matters described, or an investor may take exception as to the overall quality of the financial statements or entity (company, institution or fund). In the case of registered investment companies with the same investment objective, we feel this could be most pronounced in situations in which an investor is reviewing two similar funds, ultimately making an investment decision based on one fund having a specific critical audit matter or critical audit matters versus another.

From a preparer’s perspective, it is not unusual for fund complexes to file multiple funds in one joint filing or book (as discussed below) with a single auditor’s report covering multiple funds within such book. Notwithstanding the discussion as to the boilerplate nature of critical audit matter disclosures, we would request the PCAOB provide additional consideration and guidance as to an auditor’s report in such circumstances.

Finally, we believe there will be a substantial increase in time and effort associated with the auditor's gathering of and providing of information in connection with the auditor's required assessment, reporting of and documentation of critical audit matters. Even more so, the Proposal would require the auditor to document why other possible critical audit matters were not included as critical audit matters in the auditor's report. These efforts combined with the increased efforts associated with the auditor's evaluation of other information (as discussed below) will most certainly translate into increases in audit expense, ultimately borne by the investor. We would encourage the PCAOB to perform additional outreach, specific to the investing community in order to gain an understanding of their perceived benefits in light of the potential for boilerplate language and/or inconsistent disclosure and increased expenses.

## ***II. The Auditor's Responsibilities Regarding Other Information***

As preparers of financial statements, we support including a description in the auditor's report that clarifies the auditor's responsibility for other information in documents containing financial statements. However, we do not support changing the auditor's responsibility to "evaluate" such information versus the current requirement to "consider" the information. This change seems to imply the same level of analysis be required as that in the audit of the financial statements. While the Proposal would require the auditor state they did not audit the other information, the auditor will also state their evaluation was based on relevant audit evidence obtained and conclusions reached during the audit. We believe these disclosures will inherently be confusing to the reader with the reader potentially placing the same level of reliance on the auditor's evaluation of other information as that placed on the audited financial statements.

Further we believe an auditor's required evaluation of other information will inevitably transform into the expansion of the auditor's scope. This is based on the Proposal's expansion to evaluate "other information not directly related to the financial statements" as well as additional audit procedures, as the emphasis of the term "evaluate" will press auditors to perform additional procedures to ensure compliance and to avoid unsatisfactory inspections. As an example, we do not understand how evidence obtained during the audit would provide the auditor with information to evaluate forward looking information, overall macro-economic analysis or market analysis. Inherently the evaluation of such information will force the auditor to opine on matters of management judgment of future events or economic conditions. Such additional required evaluation and the need for further procedures by auditors could have a chilling effect on registrants' disclosure of helpful information for the benefit of the investing community in, for example, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of an Annual Report. For many years, the Commission has encouraged registrants to provide more detail regarding key trends impacting the registrant's business and while registrants will and must continue to



disclose all material information relevant to such trends, additional helpful disclosure may be omitted as registrants and their auditors weigh the cost/benefit analysis of the expanded audit procedures on such disclosures.

### ***III. Disclosure in Respect of Auditor Independence***

The Proposal would require the auditor to add additional language as to the auditor's independence, namely that it is registered with the PCAOB and is required to be independent in accordance with the federal securities laws and the rules and regulations of the Commission. As a user of financial statements, we understand and rely on the fact the auditor of the financial statements is in compliance with rules under current PCAOB standards which require an auditor registered with the PCAOB to be independent<sup>1</sup>. We believe that those standards are now well-established and understood in the investing community without specific reference to those standards. As the auditor's report is currently titled "Report of Independent Registered Public Accounting Firm" in accordance with standards of the PCAOB, we do not believe an additional statement in the auditor's report relating to auditor independence provides any additional comfort to the investing community.

### ***IV. Additional Standardized Language***

The Proposal would require the auditor to include the phrase "whether due to error or fraud" in the auditor's opinion as part of the auditor's statement describing the auditor's responsibility under PCAOB standards. As a user of financial statements, we believe the proposed additional disclosure better informs the reader as to the scope of the auditor's responsibility or financial statement review and thus, we support the addition of this phrase in the auditor's opinion.

### ***V. Disclosure in Respect of Auditor Tenure***

As a user of financial statements, we do not object to the inclusion in the auditor's report of the year in which the auditor began serving consecutively as the company's auditor and believe it may provide incremental benefit to the investing community. However, we believe that the disclosure would be better located if it were included in another regulatory filing made by a registrant, such as a fund's prospectus or, if the registrant files periodic reports under the Exchange Act, in the section of the Form 10-K (or equivalent) where audit and audit committee matters are required to be disclosed.

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<sup>1</sup> Rule 3520. Auditor Independence



As a preparer, we would ask the PCAOB to provide additional guidance specifically related to registered investment companies having one auditor over multiple funds for a given fund complex. Various mutual fund complexes will organize a business or trust having separate funds under the same business or trust. It is not unusual for these funds' audited financial statements to be organized and filed with the Commission in one combined filing or "book." As the business or trust adds new funds, these funds are added to the book. We would ask the PCAOB to better clarify how an auditor would treat its disclosure of tenure as it relates to these fund complexes. We believe the auditor's tenure would begin at such time the auditor first began auditing the fund complex, which is consistent with the application of the Commission's audit partner rotation requirements.

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We appreciate the opportunity provided by the PCAOB that allows TIAA-CREF to comment on the Proposal. Should you wish to discuss the contents of this letter, please contact Phillip Goff at 704-988-5244 or [pgoff@tiaa-cref.org](mailto:pgoff@tiaa-cref.org).

Very truly yours,

/s/ Phillip G. Goff

Phillip G. Goff  
Senior Vice President,  
Funds Treasurer