
**Federal Deposit Insurance Corporation
Board of Governors of the Federal Reserve System
National Credit Union Administration
Office of the Comptroller of the Currency**

February 6, 2014

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. 034 – *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*

Dear Office of the Secretary:

The staffs of the four federal regulatory agencies (the agencies) responsible for supervising the safety and soundness of U.S. financial institutions appreciate the opportunity to comment on the Public Company Accounting Oversight Board’s (PCAOB) Proposed Auditing Standards on the Auditor’s Report, the Auditor’s Responsibilities Regarding Other Information, and Related Amendments (Proposed Auditing Standards). On November 7, 2011, we commented on the PCAOB’s *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* (the Concept Release). The changes in the Proposed Auditing Standards on the Auditor’s Report and Other Information strike a reasonable balance in addressing concerns raised by commenters on the Concept Release. We believe that the Proposed Auditing Standards will improve auditor reporting, provide additional useful information in the auditor’s report, and enhance market discipline.

As we stated in our November 7, 2011, letter, the information provided in the auditor’s report is relevant to the agencies given our requirements regarding independent audits and assessments of the effectiveness of internal control over financial reporting for financial institutions with total assets above certain thresholds.

The agencies support the PCAOB’s decision to retain the pass/fail model for the auditor’s report. The proposed changes to the auditor’s reporting model should lessen the

information and expectations gaps of investors and other users of audited financial statements. In this regard, we believe the communication of critical audit matters (CAMs) in the auditor's report will provide useful information that is based on audit procedures performed and may also aid in earlier identification of potential problems at individual public financial institutions. We also support the requirement for the auditor to document the determination of CAMs. Additionally, we believe investors and other users of audited financial statements will find the proposed disclosures regarding auditor independence and auditor tenure useful.

The Proposed Auditing Standard regarding Other Information is an improvement over the existing auditing standard on this subject. The Proposed Auditing Standard clearly articulates the objectives and responsibilities of the auditor regarding other information and may enhance the agencies' supervision of public financial institutions.

We offer the following specific comments and suggestions for your consideration as you evaluate possible changes to the Proposed Auditing Standards.

Deficiencies in Internal Control Over Financial Reporting (ICFR)

Paragraph 9 of the Proposed Auditing Standard on the Auditor's Report sets forth factors for determining whether a matter addressed during the audit of financial statements is a CAM. One such factor is the severity of any control deficiencies identified relevant to the matter. Section V of Appendix 5 to the Proposed Auditing Standard on the Auditor's Report provides additional discussion regarding the determination of CAMs, including the severity of control deficiencies. This section states that:

Because a deficiency or deficiencies in the company's internal control over financial reporting could have a significant effect on the conduct of the audit and on the level of difficulty in gathering audit evidence or forming an opinion on the financial statements, an internal control deficiency might be an indicator of a critical audit matter.

Thus, in some cases when a deficiency or deficiencies in ICFR have been identified, the auditor may determine that the aspect of the financial statements affected by the deficiencies is not a CAM. In these situations, the agencies recommend that the Proposed Auditing Standard require the auditor to evaluate whether the deficiency or a combination of deficiencies in ICFR not associated with a CAM is such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected on a timely basis. If the auditor concludes that such a material misstatement is reasonably possible, the agencies believe that this information, by its nature, would be meaningful to users of the auditor's report. Thus, the agencies recommend that the PCAOB consider treating deficiencies that meet this condition as a CAM to be communicated in the auditor's report. Furthermore, the auditor's description of such deficiencies should explain the effect of their existence on the audit and the auditor's planned approach to the audit.

Disclosure of the Auditor's Responsibilities for Other Information

The Proposed Auditing Standard on Other Information articulates the objectives of the auditor in paragraph 2 and the procedures that the auditor should perform around the other information in paragraph 4. However, the proposed illustrative language in paragraph 14.a may cause confusion for users who are not familiar with the requirements of the Proposed Auditing Standard on Other Information. More specifically, the illustrative language seems to contain an implicit assertion regarding the accuracy of the other information although it also states that the other information was not audited and that the auditor does not express an opinion on the other information. We recommend that the disclosure in the auditor's report regarding other information be expanded to (1) more fully describe the other information evaluated by the auditor, and (2) disclose the procedures that the auditor performed regarding the other information to clarify the nature of the auditor's evaluation because the auditor is not opining on such other information. The procedures should be presented in a clear and concise manner similar to the second paragraph in the "Basis of Opinion" section presented in Appendix B of the Proposed Auditing Standard on the Auditor's Report – *An Illustrative Auditor's Unqualified Report*.

Scope of the Proposed Auditing Standard on Other Information

The scope of the Proposed Auditing Standard on Other Information, as set forth in paragraph 1, is limited to other information that is filed with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (Exchange Act). Certain banks and savings associations are required to file reports with the federal banking agencies, rather than the SEC, pursuant to Section 12(i) of the Exchange Act. The audits of such institutions are required to be performed in accordance with the PCAOB auditing standards. A literal reading of the scope paragraph of the Proposed Auditing Standard may suggest that other information filed with the federal banking agencies pursuant to Section 12(i) of the Exchange Act would be excluded from the requirements of the Proposed Auditing Standard. To clarify that the Proposed Auditing Standard is applicable to audits of banks and savings associations that are subject to Section 12(i), we recommend that the following footnote be added to paragraph 1: "This Auditing Standard is applicable to audits of banks and savings associations that file reports with the U.S. banking agencies, rather than the SEC, pursuant to Section 12(i) of the Securities Exchange Act of 1934."

Outreach Efforts

The agencies believe the PCAOB's outreach efforts to date on the auditor's reporting model have been beneficial. We encourage the PCAOB to continue to coordinate with other standard setters, particularly the American Institute of Certified Public Accountants' Auditing Standards Board and the International Auditing and Assurance Standards Board, in order to promote international consistency in the auditor's reporting model.

We appreciate your consideration of our comments and we would be pleased to discuss in more detail our views on the Proposed Auditing Standards.

Sincerely,

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