Prepared Remarks before the PCAOB
Proposal on Auditors' Reporting Model
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Thank you very much for the opportunity to appear today and present Deutsche Bank's views on this very important topic. Deutsche Bank is a global universal bank and one of the largest financial institutions in the world. To facilitate the products and services we offer, we have a wholly-owned broker-dealer subsidiary in the United States, Deutsche Bank Securities, Incorporated, or DBSI. Because Deutsche Bank is an SEC registrant, our auditors are subject to inspection by the PCAOB. As DBSI is a broker-dealer, the audits of its separate financial statements are also subject to inspection.

We support the goal of enhancing the information provided to users of financial statements, but believe the information should be presented by management. In our view, any critical audit matter would be a critical accounting matter as well, and therefore already discussed by the issuer. At best, a discussion of critical audit matters would be redundant. Accordingly, we do not support this proposal in its current form.

I have been asked to comment on issues this proposal would present to broker-dealers for their financial statements. While there are certain issues specific to broker-dealers, I believe many of the concerns we have with the proposal would be shared by other preparers of financial statements. I will begin with the matters that are specific to broker-dealers.

As you know, many broker-dealers do not provide a complete set of financial statements to their customers; instead, only a balance sheet with limited disclosures is provided. It is highly likely that an auditor would find that there are Critical Audit Matters resulting from income statement or disclosure information that is not included in the information provided to customers by a preparer. Similarly, auditor comments on responsibilities regarding other information would have little meaning to the user if the information itself is not included in the report. If those comments are to be included in the customer report, it will raise confusion for the user of the report. Clearly, the intent of this proposal is to add clarity and not confusion for the reader, and we believe this matter should be addressed during this exposure stage.

We see this matter as an indication that application of the proposal to broker-dealers may not have received the same due process as for other entities. While I very much appreciate the opportunity to comment on matters relevant to a broker-dealer, I do not believe my appearance here today can adequately address the concerns of the industry overall. Accordingly, I would respectfully suggest that an additional outreach effort be made, particularly to smaller broker-dealers who may not have the regular practice of responding to matters such as this. Since PCAOB standards have only recently been applied to audits of broker-dealers, and given the small size and closely held nature of many broker-dealers, I am concerned that there could be significant matters that may be brought to light only with a more targeted effort to solicit input from this industry across all its segments.

One other aspect directly affecting broker-dealers is that the industry is already subject to significant regulation and oversight in both business practices, maintenance of capital levels and financial statement presentation. Coupling that with the fact that broker-dealer financial statements are more often used by customers of broker-dealers rather than investors, we question whether applying this proposal to broker-dealers will yield significant benefits [that are not already addressed by existing regulations and oversight. At a minimum, we would like to suggest that the PCAOB give further consideration to excluding broker-dealers from this proposal.

There are other concerns that apply to companies in general, but may be more acute for broker-dealers. For example, complex business activities and the related management judgments applied are more likely to result in critical audit matters than are simple business activities. We are concerned that certain complex matters would almost always be cited by auditors as a critical audit matter. For example, hard to value securities such as Level Three securities would likely be named as a critical audit matter for many broker-dealers. As a result, rather than adding clarity for the user, there is a risk that such matters would come to be viewed as “boiler-plate” disclosure, and be ignored by the user. On the other hand, a user of financial statements could react very negatively to all critical audit matters, and reach an incorrect conclusion that critical audit matters are indicators of problems in the broker-dealer’s business. Given the extent of discussion of Level Three assets in both the notes to financial statements and MD&A, there seems to be little information content to be gained from having them as a critical audit matter as well. Further, a decision that something is a critical audit matter could be the result of the individual auditor’s knowledge and comfort level rather than an assessment of the matter itself. Of course, this concern is also applicable to financial institutions in general, and is not limited to broker-dealers. There may be other examples of critical audit matters that would become either false red flags or boiler-plate language that would be ignored both for financial institutions and other industries as well.

We all know that the number of pages included in both quarterly and annual reports has steadily increased in recent years. Nowhere is this more true than for financial services firms of all types. Adding to the sheer volume of the material is the fact that much of the information is very complex as well. Both the complexity of the business itself and the increasing requirements of accounting standards contribute to this increase in length and complexity of financial reports. Companies spend very substantial resources in preparing and explaining information, and trying to do so in the most understandable way possible. The result, however, is a perennial call for simplification and elimination of disclosure overload. Adding an additional view or set of commentary will certainly not help this situation.

As noted at the beginning of these remarks, we support efforts for increased transparency and providing additional useful information to users of financial statements. We do not think it should be the role of auditors to do so, and we cannot support the proposal as it currently exists.

Thank you for your time to hear these remarks.