Public Company Accounting Oversight Board ("PCAOB" or the "Board") Public Meeting

Washington, D.C., April 3, 2014

WeiserMazars LLP

Auditor's Reporting Model Proposal ("Proposed Auditing Standards") as it pertains to Broker-Dealers

Thank you for inviting me to participate in this PCAOB Public Meeting. As the leader of my firms' Broker Dealer Practice and former two time Chairman of the New York State Stock Society of CPAs Stock Brokerage Committee and current member of that Committee, as well as the American Institute of Certified Public Accountants and Securities Industry and Financial Markets Association, I welcome the opportunity to express views on the Proposal.

I. About Weiser Mazars LLP

- Mazars Group includes 14,000 professionals in 70 countries
- Weiser Mazars LLP includes 100 partners and 650 professionals in six U.S. offices, Israel and the Cayman Islands
- Auditor for Small Issuers with less than $.5 billion in market capitalization
- Auditor of broker-dealers, which range from small to medium size firms
    - Our Broker dealer portfolio includes retail, trading, investment banking service firms
    - Those firms range from $20,000 to $3 billion in net capital
    - With employees 3 to several hundred

II. Critical Audit Matters –Small Broker-Dealers

- For purposes of this discussion I will define small broker dealers as those which are noted in the proposal by the PCAOB'S Office of Research and Analysis ("ORA"), specifically those broker dealers which comprise approximately 2200 of the approximately 4,200 broker-dealers in the U.S. which have a minimum net capital of $5,000. Also noted by ORA, 1,700 have revenues of less than $1 million, and only 9% of broker-dealers are subsidiaries of issuers, who presumably are audited under PCAOB standards as part of the parent/subsidiary consolidation.
- Only 311 of the 4,200 broker-dealers, according to ORA, are subject to the Customer Protection Rule, SEC Rule 15c3-3.The vast majority hold no customer funds or securities.
- The purpose of the proposed rule is to allow investors to enhance their ability to make investment decisions and for other financial users, which in the case of broker -dealers would be the regulators. As noted in the proposal, approximately 90% of broker-dealers are directly owned by an individual or an entity that owns more than 50% of the broker-dealer and approximately 75% have 5 or fewer direct owners, who the ORA suggests, and is my experience are often active in the business. Investors do not invest in the broker-dealer proper. When a broker-dealer attempts to attract capital, it will look to bring in other active shareholders or subordinated lenders who generally are existing shareholders. Therefore we believe that investors would not benefit from the proposed change as they are not investing in the broker-dealer.

- Other Financial Users are the Regulators – the broker-dealer industry is heavily regulated with a robust surveillance system in place that includes FINRA, the SEC, the Commodities Futures Trading Commission, and State Regulators. There will also be additional auditing oversight under PCAOB Standards for years ending after June 1, 2014, which will allow potential referral by PCAOB to regulators. Surveillance includes:
    - FINRA receives Focus Reports from broker-dealers at least quarterly
    - Surveillance by local FINRA district offices occur monthly or more frequently, if warranted,
    - Periodic examinations by local FINRA district offices occur on a triennial basis or more frequently depending on the nature of the business
    - Effective for years ending after June 1, 2014, a broker-dealer Exemption Report will be mandatory to be filed with FINRA and the SEC for introducing firms. The broker-dealer must state in this report that it met the identified exemptions of the customer protection rule without exception. If an exception is noted, the nature of that exception must be described. The auditor will review the report in accordance with PCAOB standards.
- If enacted, many broker-dealers will have common critical audit matters that are already addressed in other reporting areas. Disclosure and information available to users, namely the regulators is more than adequate in areas that are common to many broker-dealers. For example:
    - Valuation of securities, which is addressed in footnote fair value disclosures
    - Revenue recognition, which is addressed in footnote disclosures
    - Net Capital computation, which is addressed in a required supplementary schedule, and is extensively audited and disclosed
    - Compliance with exemptive provisions of Rule 15c3-3

III. Potential Additional Concerns

- The additional costs of applying PCAOB Auditing Standard No. 7 *Engagement Quality Review* (" EQR", effective June 2014, along with implementation of all other PCAOB auditing standards have already added incremental audits costs to the small broker-dealer.
- A small broker-dealer will be asked to absorb additional costs if the Proposed Auditing Standards are enacted. A mid-size auditing firm's additional manpower costs to comply with proposed reporting requirement for critical audit matters would include incremental time incurred by a senior, manager, partner, EQR, Engagement Quality Control Reviewer ("EQCR"), in-house and/or outside counsel and other firm experts/specialists to issue a report.
- Time constraints: the broker-dealer prepares financial statements, and the auditor is asked to issue an opinion no later than 60 days after year end. This existing time constraint, with the possibility of additional reporting requirements, if the Proposed Auditing Standards is enacted and applied to Broker Dealers, is a more stringent time frame for more significant public companies which may have a 75 and 90 day requirement to file. There is a concern that additional reporting with these time constraints, may affect audit quality in the race to get reports issued to meet existing deadline requirements.

- Although there are many common critical audit matters, might the time constraints result in boiler plate responses even when the unusual occurs?
- Documentation of critical audit areas - Compliance with Auditing Standard No. 3 may be more burdensome and costly.
    - Depending on the capabilities of the auditor, given a similar fact pattern, different auditors may produce different results. Thus, the "playing field" may not be level, for different size accounting firms and their clients.
- The August 2013 Second Report on the Progress of the Interim Inspection Program noted that of 783 accounting firms that audited broker -dealers for the 2012 audit year, 656 or 83% of those firms audited 1 to 5 broker-dealers each, while 14 firms or 2% , audited 51 or more broker dealers each. I suspect that this may be somewhat price driven. Some broker-dealers may in the interest of saving dollars look for those auditors who can perform less costly audits, and in some cases quality may suffer.

IV. **Statement of Financial Condition Filing Election**

A broker-dealer may elect pursuant to SEC Rule 17a-5, to file the financial statements and related notes on a confidential basis. If so elected the statement of financial condition and related notes becomes the public document, with the full confidential report being utilized by the SEC. Many small broker-dealers make the election. The issuance of a second report is not considered burdensome to the client nor auditor. However, if enacted, the critical audit areas and consistency of application for each separate reporting would add additional cost. The inclusion or exclusion of which critical audit areas would be reported in each report may open the auditor to criticism.

V. Auditor's Responsibilities Regarding Other Information

As noted in the proposal, the other information standard would not apply to the supporting schedules required by SEC Rule 15c3-1. In addition, the proposal would not be applicable to the Compliance or Exemption Reports which are effective for years ending after June 1, 2014. But the Oath or affirmation accompanying the financial statements and signed by an officer of the broker-dealer would. The evaluation of the oath in accordance with procedures set forth in the proposal should not be burdensome, and seemingly could be addressed with an appropriate checklist and memorandum evidencing an auditor's satisfaction.

VI Conclusion

Given the statistics already acknowledged by the PCAOB, including the size of the majority of the broker-dealers, the size of the accounting firms that audit them and the likelihood that no useful additional information may be gained by additional requirements, we believe broker-dealers should be excluded from the proposed standards.

Our lack of support for certain aspects of the proposed audit standards including their effect on issuers, as noted in our December 9, 2013 letter to the PCAOB, primarily relate to our conviction that we

should not supplant the responsibilities of management or audit committees. We remain committed to participating in future discussions with the Board and staff to further enhance audit quality. We thank you for today's opportunity to communicate with you.