



Tel: 212-885-8000
Fax: 212-697-5076
www.bdo.com

100 Park Avenue
New York, NY 10017

February 6, 2014

Via e-mail: comments@pcaobus.org

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

Re: PCAOB Release No. 2013-009, Rulemaking Docket Matter No. 029: *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit (the "Release")*

Dear Board Members and Staff:

BDO USA, LLP ("BDO") is pleased to have the opportunity to comment on the *Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit (the "Proposed Amendments")*. As noted in our prior comment letter on this topic¹, we recognize the need to increase transparency about the audit process, particularly as it relates to promoting the performance of high quality audits, and we are committed to actively participating in efforts to enhance audit performance. We believe that many of the recent efforts undertaken by the PCAOB, including the proposal to provide for the discussion of critical audit matters in the audit report and the current project to identify and disclose certain audit quality indicators, support such efforts in increasing transparency about the audit.

We do not, however, believe the proposed amendment that would require identification of the engagement partner provides meaningful information to users or results in enhancements in audit quality. Moreover, beyond the potential for adverse unintended consequences on audit quality, we are concerned that identification of the engagement partner could result in practical implementation challenges, in particular as they relate to providing consents, and increased risk in litigation exposure, which are described more fully below under the section "Further Comments on Specific Proposals." We encourage the Board to consider these matters in evaluating whether to move forward with this aspect of the proposal at this time. However, if, notwithstanding our concerns, the Board continues to move forward with this aspect of the Proposed Amendments, we believe identification of the engagement partner more appropriately belongs within Form 2 rather than within the auditor's report. Providing this information within Form 2 would address calls from investors for such information while mitigating our concerns regarding consents and increased liability exposure.

Another proposed amendment described in the Release would require disclosure in the auditor's report of information about certain other participants, including other independent public accounting firms. Consistent with our commitment to further meaningful transparency about the audit, we support providing information about certain other participants in the

¹ See BDO comment letter to the PCAOB dated January 9, 2012.



audit, and consistent with our views regarding engagement partner identification, we believe a more appropriate approach to disclosure would be to disclose such information within Form 2. Furthermore, we believe the threshold for disclosure of other participants in the audit should be revised to reflect a minimum absolute hours disclosure threshold, such that when the aggregate extent of participation of all other persons from the same country not employed by the auditor or the individual extent of participation of other independent accounting firms is less than 5% or 50 hours in the most recent period's audit, the other persons or firms would be disclosed as a group. We believe including a minimum absolute hour disclosure threshold would increase the usefulness of this information by focusing attention on those certain other participants with a more than limited role in the audit. This will improve the proposal by focusing on larger engagements where other firms may play an important role in the audit, as opposed to smaller engagements where other firms may perform less important services such as inventory observations or minimal other procedures.

Further Comments on Specific Proposals

Engagement Partner Identification

We are concerned that identification of the engagement partner, whether within or outside the auditor's report, places undue emphasis on the role of the engagement partner without consideration of other more relevant factors that impact audit quality. As a result, we believe that incorrect inferences about engagement partners and audits may be made, particularly when the experience of an engagement partner is not publicly available (e.g., when the partner's experience was previously with a non-issuer client or otherwise outside the public company audit environment). We believe a more appropriate and effective way to impact audit quality and provide relevant information to users is through the work currently underway by the PCAOB relating to audit quality indicators, and we support the PCAOB's efforts in this regard.

Providing and Obtaining Consents

We understand, based on the discussion on pages 21 to 22 of the Release, that engagement partners and participating accounting firms named in an auditor's report would be required to consent to the inclusion of their names in an auditor's report filed with, or included by reference in, another document filed under the Securities Act with the Commission. However, we believe there are significant implementation challenges in obtaining consents from engagement partners and certain independent public accounting firms that may not have been previously contemplated. For instance, as it relates to engagement partners, a consent may be required from an engagement partner who is no longer associated with the issuer's audit firm or may not be in a position to provide a consent (e.g., when a consent is required, there may be concerns about sharing confidential information with a partner who changes audit firms). Additionally, it may be inappropriate under current SEC independence rules for an engagement partner that rotated off an engagement after the five-year service period to perform any updating procedures on that engagement to be able to provide a consent.



Office of the Secretary
Public Company Accounting Oversight Board
Page 3 of 3

With respect to certain independent public accounting firms who participated in the audit, such firms may deem it necessary to review a filing and perform updating procedures before providing consent, even in areas in which they may not have had responsibility, resulting in additional costs and possible delays in the filing of a registration statement. The issue would be further complicated when consents are required from non-network firms or there are unforeseen difficulties in obtaining all necessary consents from firms on the filing date.

Liability Considerations

We believe the Proposed Amendments have the potential to significantly increase the risk of litigation exposure, primarily as it relates to Section 11 of the Securities Act of 1933, as a result of naming the engagement partner or a participating accounting firm in the auditor's report. While the Board explains in the Release that any possible increase in liability exposure for a named engagement partner or a participating accounting firm is limited, and that the potential risk of such an increase is justified by the potential benefits of greater transparency, we do not believe the potential increase in liability exposure is limited or insignificant or that the potential benefits set out in the Release are available only through naming the engagement partner or a participating accounting firm in the auditor's report. We believe the benefits of transparency relating to participating accounting firms can be attained without significantly increasing liability exposure by including the required information in Form 2. Furthermore, if the Board decides to move forward with the proposal to identify the engagement partner, despite our concerns noted above, we believe disclosure in Form 2 is also a more appropriate reporting mechanism, for the reasons previously stated.

Emerging Growth Companies (EGC) and Brokers and Dealers

We believe the Proposed Amendments, when finalized to reflect comments received, should apply to audits of EGCs because of the benefits of transparency to all financial statement users. However, we do not support application of the Proposed Amendments to non-issuer brokers and dealers, because (1) the ownership of these brokers is primarily closely held and direct owners are generally part of management and (2) we believe this information would not be relevant to third parties.

We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Chris Smith, Audit and Accounting Professional Practice Leader, at 310-557-8549 (chsmith@bdo.com) or Susan Lister, National Director of Auditing, at 212-885-8375 (slister@bdo.com).

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP