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August 31, 2015

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

VIA EMAIL: comments@pcaobus.org

Re: Rulemaking Docket Matter No. 029, PCAOB Release No. 2015-004 — Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form.

Dear Members of the PCAOB:

I am submitting this letter to provide input for your deliberations on PCAOB Release no. 2015-004 concerning disclosure of engagement partner identity and information about other participants in an audit. My views are informed by my experience teaching accounting and conducting research on the role of accounting information in capital markets since the late 1970's. They are also informed by my service on the board of directors and audit committee of a public company from 2003 to 2006, and on the PCAOB Standing Advisory Group since January 2014.

I support the PCAOB's proposal to require disclosure of the audit partner's name on Form AP and to provide information about other participants in the audit. This is a well-reasoned proposal that yields useful information to investors and avoids potential litigation costs associated with filing in the auditor's report. The appendix carefully reviews the relevant evidence on economic costs and benefits of greater transparency. The benefit of greater transparency for investors is substantial. The PCAOB's inspection results indicate variation in audit quality across engagement partners. The comment letters of investors and investor groups ask for engagement partner data to support their assessment of audit quality, and the studies discussed in Appendix 2 on engagement partner disclosures indicate the data are useful in several other countries. Furthermore, disclosure will enable research that addresses many questions about auditing that have the potential to improve audit quality.

I believe disclosure will also increase the alignment of the auditor's incentives with financial statement users. This is supported by the Report of the Advisory Committee on the Auditing Profession, recent empirical research examining this question with data from Sweden and the United Kingdom, and the effects of auditor disclosure at the General Accounting Office described in Charles Bowsher's February 26, 2014 letter.¹

Given the benefits to investors and researchers, it seems the question to address is the potential cost of disclosure. The cost of greatest concern to most of the auditing firms submitting comments relates to liability, and I am persuaded by the discussion in the Supplemental Request and many comment letters that Form AP will not lead to increased liability. I therefore expect that the benefits of additional information on engagement partners and other participants in audits will exceed the costs of its production.

I expect that the Form AP mechanism will be very useful to investors and researchers interested in accessing data on auditor identity. Key requirements to make these data readily accessible are that the database is searchable and downloadable. Key data items include the audit firm, audit partner, client, year and month of the fiscal year of the client's financial statements, and the date and time of the filing of the Form AP. The proposal to identify the client by its CIK allows matching with other databases with client-related information. The proposal would require the auditor to be identified by name, but it would be helpful if the auditor is also identified by a unique ID code. This would provide clear identification of auditors with the same or similar names, and also help to track individuals who may transition to a different audit firm.

In addition to providing insights about variation in assignments, experience and audit-related outcomes, I expect that the new information will be used to address questions about the arc of an auditor's career and learning over time and across engagements.

Some letters express concern that investors may misunderstand the role of the engagement partner, I do not share this concern. There is extensive evidence that investors process public information in a sophisticated manner and investor responses to public disclosures cause relevant information to be reflected in security prices.² This in turn contributes to appropriate allocation of resources in the economy. To the extent disclosure of engagement partners allows investors to better assess audit quality and price its implications, resources will be better allocated and incentives for higher audit quality will be further reinforced.

¹ See Knechel, Vanstraelen and Zerni, (2015, Contemporary Accounting Research), and Carcello and Li (2013, The Accounting Review).

² I will mention just a few studies from a large literature. McNichols (1989, The Accounting Review) documents that investors at least partially undo bias in management forecasts at the time the forecast is issued. McNichols and Stubben (2008, The Accounting Review) document that firms that restate their earnings have suboptimal investment in the period of misstated earnings. McNichols and Stubben (2015, Review of Accounting Studies) document that acquirers make more efficient acquisitions when target earnings quality is higher. Gipper, Leuz and Maffett (August 2015 University of Chicago and PCAOB working paper) document that PCAOB audit oversight increases investors' assessments of reporting credibility, leading to more pronounced price and volume reactions to financial statement information.

With time, the proposed data on auditor identity can also provide insight into when rotation takes place within a firm. It would be helpful in the first years of disclosure to know the number of years of annual audits the individual has served as engagement partner, or the partners for the prior years associated with a given year's financial statements, if this is not onerous for the firms to provide. Once the database has been in operation five years, investors can determine this from the history but until then, this would be a useful disclosure.

The proposed data on the role of other participants in the audit will also be very useful as the database builds up over time, to produce a better understanding of the manner in which the audit relies on other auditors. However, in response to concerns regarding implementation, if the implementation to disclose other participant data poses more challenges than to disclose the engagement partner identity, I would favor phased implementation of the other participant data to delaying disclosure of the engagement partner.

With regard to Form AP and the SEC's proposal to include information about the engagement partner in the audit committee's report, Form AP has some important advantages. First, access to data will be more efficient for investors and researchers who conduct "large sample" studies if the data are contained in a searchable and downloadable database. Although I expect commercial data providers, such as Audit Analytics, will begin to collect and provide these data even if they are not readily downloadable, the price of a subscription would likely preclude access by many individual investors and researchers. Second, the audit firms have a comparative advantage in reporting the names of the engagement partners and their clients. As a result, the Form AP mechanism would allow for consistency, economies of scale in reporting and higher quality data. Third, it allows the audit firms to own this communication, rather than involve numerous other individuals.

The SEC's proposal to expand audit committee reporting discusses many important possible disclosures, and could lead to significant improvements in audit committee processes as well as investors' understanding of them. Including the audit partner's name in these disclosures may lower the costs to some investors who for example are studying a smaller number of companies' disclosures. Given the extent of disclosures discussed in the SEC's proposal, disclosing the name of the engagement partner should not add significant costs to this endeavor, in which case proceeding with disclosure by the audit committee as well as Form AP would make sense. However, I believe for most investors and researchers, the downloadable searchable file the PCAOB proposes will be more efficient to use.

Furthermore, Form AP could be more timely, both in its initiation date and relative to the audit report date. The complexity of the other disclosures contemplated for audit committees in the SEC's proposal could require more time for exposure and input by relevant parties. Form AP would be an earlier and more timely disclosure if disclosed either 10 or 30 days after the audit report, as is proposed, relative to the timing of most proxy statements. Providing the information on auditor identity after the filing of the annual report on Form 10-K would require investors and analysts to incorporate this

additional information incrementally, rather than close to the time of the financial statement review. For this reason I believe 10 days or fewer is preferable, but perhaps there could be a transition period with a 30 day requirement moving to a shorter lag once participants have refined the relevant processes for reporting.

Regarding the question of reporting for Emerging Growth Company (EGC) clients, I do not believe there is a compelling reason to exempt these engagements. EGCs are potentially subject to the greatest variation in auditor quality and experience, and the cost of filing the information will not be directly borne by the EGC itself. Given the higher risk of these engagements, investors are likely to benefit substantially from greater transparency.

In summary, I find the arguments in the Supplemental Request for Comment compelling, and recommend the Proposal be approved and enacted. Disclosure of auditor identity on Form AP now meets the approval of many individuals and organizations, including some that initially opposed disclosure of engagement partners. I believe this is a testament to the inclusive problem-solving approach the PCAOB has taken, and to the efforts of the all the commenting parties who researched and articulated the potential consequences of each proposal. The result is a proposal that provides useful information to investors and others interested in improving audit quality in a cost-beneficial manner.

Thank you for the opportunity to submit my comments.

A handwritten signature in cursive script, reading "Maurice M. Friedrich".