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Public Company Accounting Oversight Board
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Re: PCAOB 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

Dear Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) reproposal of *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*. We appreciate the Board's actions in responding to comments received on the original proposal and we value the importance and ability to provide additional comments on the Board's proposed revisions.

Overall, we support the Board's initiative to improve the transparency of audits to investors and other stakeholders; nevertheless, we continue to have significant reservations regarding the reproposed amendments. We do not agree with the premise that transparency in the form of identifying the engagement partner in the audit report will accomplish the goal of providing information to investors that will better equip them to make informed investment decisions. Such information requires (1) a deeper understanding of the issuer and its business, including its strengths, weaknesses, and the complexities of the industry it operates in; and (2) the ability to make judgments about the engagement partner's capability to properly execute his or her responsibilities in that environment. That level of information is available to audit committees who are already required under the Sarbanes-Oxley Act to select, compensate, and oversee the external auditor. Further, we continue to believe that investors, issuers, and auditors might suffer unintended negative consequences if such disclosures become required. For example, armed only with an engagement partner's name and the publicly available information about that partner's other issuer clients, investors may make buy or sell decisions that are not based on all relevant facts, thus leading to a suboptimal outcome. We do support the notion that in certain circumstances, such as where there is a substantial role, disclosure of the role of others in the audit may be useful, but recommend that the Board adopt the "substantial role" criteria for the threshold. Our specific comments are provided below.

Disclosure of the engagement partner

Unintended consequences

We believe that effective audit transparency provides investors with information that helps them understand the responsibilities of the auditor, management, and others in the financial reporting process; the nature of the procedures performed; and the results of those audit procedures. The goal in providing such information is to enhance investors' ability to make investing decisions that fit within their risk tolerances. It is critical, therefore, that the information disclosed be of such a nature that it is unlikely that it could be misconstrued, thus resulting in investors making inappropriate decisions.

We disagree with the Board's premise that, as described in Appendix 3, *Consideration of Comments,* "investors and other market participants would be able to understand and make appropriate use of the disclosure required by the reproposed amendments." We do not believe it is possible for investors, by knowing a partner's name, to make a truly informed investing decision by connecting views that may exist about audit quality for a certain partner to the expected financial performance of an entity. It is, however, entirely possible for investors to use the partner's name, in the absence of complete information, to make uninformed decisions that they would not otherwise make. Doing so will bring unintended harm to engagement partners, issuers, and ultimately to the investors these reproposed amendments are seeking to help.

We believe the disclosure of the engagement partner in the audit report will not add value to investors and the extent of inappropriate inferences that could be made by investors is problematic. These requirements may also be a disincentive to professionals within accounting firms from becoming audit partners for issuer engagements, given the potential increased liability and other concerns set forth in this letter.

Consents

We do not believe the consent requirements suggested by the reproposed amendments will be operational in all circumstances. We foresee potential issues in situations such as partner retirement, partner rotation, and when a partner changes firms. In these situations, delays would likely occur in attempting to obtain a consent from the original signing partner. This is of particular concern in situations where an entity is filing a registration statement where timing can be critical. We believe that these issues and concerns provide further support for the Board to reconsider the proposal to include the partner name in the auditor's report.

Legal liability considerations

If the Board intends to move forward with the proposal to disclose the name of the engagement partner, we continue to believe that the Board must first collaborate with the U.S. Securities and Exchange Commission (SEC) so as to further consider and evaluate the consent requirements and potential liability implications. We remain concerned that providing a consent may cause one to be deemed the "maker" of a false statement in the financial statements under current judicial interpretations of Section 10(b) of the Securities Exchange Act of 1934. Moreover, we continue to share the concerns expressed by others as to increased liability under Section 11 of the Securities Act of 1933, especially when considering Section 11's lack of a causation or scienter requirement.

Although the Board has noted the potential increase in an engagement partner's liability as a side effect of the proposal, we believe it is necessary for the PCAOB to strongly consider alternatives that would meet the Board's objectives without increasing the liability risks.

We note that even though an engagement partner may ultimately be found to have fully complied with all professional standards and regulatory requirements, being personally named in litigation seriously affects a partner's professional and personal life for an extended period.

Disclosure of certain other participants in the audit

We can understand the need for transparency regarding other participants in the audit, and we support such disclosure noting that some investors or users of the financial statements may find this information beneficial. However, we do not agree with the level of involvement determination of five percent of total hours and recommend that the Board be consistent with its other rules by adopting a "substantial role" threshold. Nor do we believe that the audit report is the appropriate place for such disclosures. Rather, we support the use of Form 2 as the mechanism for disclosure of information related to certain other participants in the audit. We acknowledge that the timing of the accounting firm filings of Form 2 may result in time lags between reporting on financial statements and the availability of information, but we note that such specific reporting requirements could be revised to include a shorter time period for reporting such information.

Network firms

With respect to disclosure of work performed by network or affiliated firms, we support the disclosure of these network or affiliate firms in Form 2, as noted above. However, we continue to believe that the benchmark and disclosure threshold would not provide meaningful information to investors as we do not believe such low level involvement and the potential listing of many participants at that level would provide actionable information to investors. We acknowledge the PCAOB's increase in the threshold from three percent to five percent in the reproposal. However, we believe that five percent continues to be too low to provide meaningful transparency to investors. Consider a smaller reporting company with total audit hours of 600; five percent is 30 hours, which could represent three inventory observations performed in three different foreign locations. This would have to be disclosed under the current proposed requirements, and we question the relevancy of disclosing such information. Perhaps with large, accelerated filers a threshold of five percent appears appropriate, but when applying it to the remaining population of issuers, we believe five percent is too low to provide truly meaningful information to investors.

We strongly recommend that the use of the "substantial role" criteria, as the relevant benchmark for separate disclosure of the names and locations of each of these participating firms, would be a much more useful approach. We would expect those firms that play a substantial role to be similar to those that perform an audit, adapted as necessary, for significant components, as contemplated by the ISAs. In this case, disclosure of the specific percentage of hours for each participant need not be provided, as it would be clear that their role was substantial. We believe this recommendation aligns with the examples provided in the release (page 19) where the Board notes that information regarding "a significant portion of the audit

work was performed outside of the U.S. by a firm other than the firm that signed the audit report," and that this information could be particularly valuable to investors.

Specialists not employed by the audit firm

We continue to believe that requiring disclosure of individuals with specialized skill or knowledge not employed by the audit firm is not operational nor would the information provide understandable transparency to an audit. We strongly believe that the percentage of total hours would not accurately portray the relevance of the work performed by specialists not employed by the audit firm. Oftentimes, specialists do not provide information such as the number of hours expended to assist the firm especially in cases where the work can be leveraged among various clients. For example, valuation firms determine pricing for certain investments as of a specific date. That information could be distributed to multiple firms for multiple clients but the pricing itself was done once. Therefore, how would hours be determined for each firm that benefited from this information?

Scope

With respect to the scoping, we believe the requirements should apply to emerging growth companies and issuer broker-dealers. However, we anticipate the same operational challenges described throughout our letter will apply to these entities as well.

We understand the Board's responsibility to respond to investor needs and enhance investor protection. However, we believe that an informed judgment about audit quality cannot and should not be based solely on disclosure of the name of the engagement partner and/or certain other participants in the audit. We believe that the negative consequences related to providing such transparency, including increased partner liability, would be greater than any perceived benefits to the marketplace in general.

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If you have any questions about our response, or wish to further discuss our comments, please contact Jeff Burgess, National Managing Partner of Professional Standards, at Jeff.Burgess@us.gt.com or at (704) 632-3940.

Sincerely,

Grant Thornton LLP