



CENTER FOR CAPITAL MARKETS  
COMPETITIVENESS

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Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, NW  
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**Re: Request for Public Comment *on Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards and Notice of Roundtable (PCAOB Release No. 2011-003, June 21, 2011, Rulemaking Docket Matter No. 34)***

Dear Members and Staff of the Public Company Accounting Oversight Board:

The U.S. Chamber of Commerce (the “Chamber”) is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21<sup>st</sup> century economy.

The CCMC recognizes the vital role external audits play in capital formation and supports efforts to improve audit effectiveness. We appreciate the opportunity to comment on the Public Company Accounting Oversight Board’s (“PCAOB”) *Concept Release on Possible*

*Revisions to PCAOB Standards Related to Reports on Audited Financial Statements*  
("Concept Release").

The CCMC has a number of concerns regarding the issues and concepts outlined in the Concept Release including those related to:

- The potential increase in financial reporting complexity;
- The apparent overturning of fundamental precepts of financial reporting;
- The conflict with other forms of mandated corporate disclosure;
- The fundamental shift in the role of the auditor and communications;
- The potential activities that may fall outside of the legal mandates of the PCAOB's powers and encroachment upon mandated powers of other regulators and standard setters;
- The potential increase in litigation harmful to investors and the capital markets; and
- The failure to weigh recommendations made by other entities to reduce financial reporting complexity.

In reviewing the intent and purpose behind the Concept Release, the CCMC believes that the PCAOB should work with the Securities and

Exchange Commission (“SEC”) and Financial Accounting Standards Board (“FASB”) to:

- Take a coordinated holistic approach to reducing financial reporting complexity;
- Create a Financial Reporting Forum allowing all stakeholders to work together to identify long-term financial reporting issues and solutions; and
- Follow transparency and disclosure standards, used by regulators, in the development of standards and concept releases.

### **Discussion**

The stated objective of the Concept Release is to seek public comment on auditor reporting alternatives that could provide investors with more insight into the company’s financial statements, or possibly other information outside the financial statements, and more transparency into the audit process.

The Concept Release presents four alternatives (auditor’s discussion and analysis (“AD&A”), required and expanded use of emphasis paragraphs, auditor assurance on other information outside the financial statements, and clarification of the standard auditor’s report). Nonetheless, the Concept Release makes clear that the PCAOB intends to retain the current (“pass/fail”) approach of the standard auditor’s report. Indeed, as recognized in the Concept Release, the PCAOB has heard overwhelming support from all stakeholder groups for retaining this long-standing

approach to auditor reporting. Thus, the alternatives presented in the Concept Release would be additive to the current approach.

Before addressing any specifics in regards to the Concept Release, it is important to consider the threshold question of whether the PCAOB should undertake a standard-setting initiative. CCMC notes that standards related to auditor reporting are long-standing and have served the test of time. While this does not mean that improvements should not be considered by the PCAOB, it does suggest the need to exercise caution in doing so.

The CCMC has a number of concerns about the PCAOB's approach to this reporting project and the alternatives discussed in the Concept Release. These concerns are outlined in the remainder of this letter.

## **I. Approach to Developing the Concept Release**

An overarching concern is that, in developing the Concept Release, the PCAOB has not taken a comprehensive and holistic approach to considering the role of *both* auditors and audit regulators in achieving an optimal level of quality and clarity in public company financial reporting. The PCAOB has not clearly articulated the current structural audit weaknesses in public company financial reporting, which is a necessary predicate to address the threshold question of whether the PCAOB should undertake a standard-setting initiative on auditor reporting. In addition, the Concept Release does not appreciate that the PCAOB as the regulator of public company audits actually shares responsibility with auditors for audit quality. Instead, the Concept Release appears intent on transferring responsibilities to auditors when it comes to auditor reporting.

A more holistic approach to considering the interplay of audit and financial reporting regulation could likely have informed this PCAOB auditor reporting project in other ways, including by raising questions about some of the essential premises that underlie it. For example, in response to the 2008 economic crisis, FASB has promulgated new standards and the SEC has enacted new regulations. There is no indication that the PCAOB considered these FASB and SEC activities in developing the alternatives discussed in the Concept Release.

Furthermore, the project does not appear to have taken into account the insights and recommendations from prior blue-ribbon advisory committees, such as the SEC Advisory Committee on Improvements to Financial Reporting (“CIFiR”), the U.S. Department of the Treasury Advisory Committee on the Auditing Profession (“ACAP”), and the Panel on Audit Effectiveness.<sup>1</sup> For example, ACAP recommended that the PCAOB narrow the expectation gap and provided useful guidance to the PCAOB for exercising its responsibility to do so; whereas, the Concept Release seems intent on delegating this regulator responsibility to auditors, including through the assignment of new responsibilities.

Moreover, the reports and recommendations of previous advisory committees should have provided perspective on the feedback that the PCAOB received during its outreach activities. For example, it is financial reporting complexity, including disclosure overload, which is at the heart of some of what the PCAOB heard from its outreach activities. Calls by investors for “tell us what matters” and “give us a roadmap” should be less about asking auditors to weigh-in with their views (as the Concept Release suggests with alternatives such as AD&A and expanded and required use of emphasis of matter paragraphs), and more about the PCAOB working

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<sup>1</sup> Recommendations of the Panel on Audit Effectiveness are discussed in a subsequent section of this letter on going concern reporting and disclosures.

with other regulators, including the SEC and FASB, to help fix the essential problem.

Disclosures for public companies and their investors are a triad that involves the SEC, FASB, and the PCAOB. It is imperative that this triad work in harmony to provide a rational coordinated system of disclosure for all public company stakeholders. A failure to do so will create competing disclosures and confusion, sowing uncertainty and doubt in the capital markets for investors and companies alike. The CCMC once again reiterates its call for a Financial Reporting Forum that will provide for coordination as well as the identification and resolution of problems that may drive complexity and obfuscation.<sup>2</sup>

Importantly, complexity challenges a premise for this project that expanded auditor reporting in advance of the 2008 economic crisis might have been helpful in assessing the quality of the financial statement and provided early warning signals regarding potential issues.

In its August 2008 Final Report, CIFI<sup>2</sup> recognized that over time “financial reporting has become a burdensome compliance exercise with decreasing relevance to investors” (p. 18). CIFI<sup>2</sup> identified financial reporting complexity as the key factor driving the disconnect between current financial reporting and the information necessary to make sound investment decisions. Thus, CIFI<sup>2</sup> made a number of recommendations to the SEC, FASB, and PCAOB to improve the usefulness and reduce the complexity in financial reporting. While some progress has been made, many of CIFI<sup>2</sup>’s recommendations have yet to be taken up by the appropriate bodies – in particular the PCAOB.

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<sup>2</sup> See CCMC testimony provided to the U.S. Senate Subcommittee on Securities, Insurance and Investment’s April 6, 2011 hearing: *The role of the accounting and auditing profession in preventing another financial crisis*.

One example of a CIFIr recommendation not yet addressed by the PCAOB relates to judgment. Whereas discussions in the Concept Release indicate that some participants in the PCAOB's outreach activities expect a single "right answer," CIFIr appreciated the role of judgment and understood that there is not necessarily one right answer in accounting and auditing matters. In turn, CIFIr recommended that the PCAOB develop and articulate guidance related to how the PCAOB, including in its inspections and enforcement divisions, would evaluate the reasonableness of judgments made based on PCAOB auditing standards. CIFIr also recommended that the PCAOB's statement of policy should acknowledge that the PCAOB would look to the SEC to the extent that the PCAOB would be evaluating the appropriateness of accounting judgments as part of an auditor's compliance with PCAOB auditing standards.<sup>3</sup>

To summarize, CIFIr understood the need to take a comprehensive and holistic approach to overcoming the problem of financial reporting complexity. The CCMC recommends that the PCAOB adopt such an approach and redirect its efforts and resources from initiatives that will only exacerbate the disclosure overload problem. All financial reporting stakeholders would be better served if the PCAOB worked with other regulators and standard-setters, such as the SEC and FASB, to implement the CIFIr recommendations; to help update and improve existing disclosure requirements and eliminate redundant and unnecessary disclosures; to facilitate the ability of management (rather than lawyers) to drive discussions in MD&A, including those around critical accounting estimates; and to help address issues around the auditability of GAAP.

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<sup>3</sup> CIFIr recommended that the SEC issue a statement of policy articulating how it evaluates the reasonableness of accounting judgments and include factors that it considers when making this evaluation. CIFIr then went on to suggest some components of an accounting policy statement related to the choice and application of accounting principles, as well as estimates and evidence related to the application of accounting principles. CIFIr's suggested components are consistent with advice on the SEC's website for consultations on accounting matters with the Office of the Chief Accountant and the Division of Corporation Finance. However, CIFIr made no such suggestions in regards to an audit judgment framework.

The CCMC also recommends that the PCAOB work with others such as the SEC and FASB to better understand the responsibilities of users when it comes to financial reporting. The Concept Release seems not to appreciate that users are heterogeneous and, therefore, their information needs vary. General purpose financial reporting, as represented by GAAP financial statements, is designed to meet the needs of the broad set of all users and not the demands of any particular special interest group.

## **II. Overturning a Fundamental Premise of Financial Reporting**

Another major CCMC concern is that the Concept Release overturns a fundamental premise of financial reporting—namely that the financial statements and disclosures are the responsibility of management. This premise likewise extends to other information that accompanies the financial statements, such as Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), which management prepares in accordance with SEC requirements, as well as other information outside the financial statements.

Management’s financial reporting responsibility includes the selection and application of Generally Accepted Accounting Principles (“GAAP”) and the determination of the many estimates and judgments required by GAAP and SEC financial reporting requirements, including MD&A disclosures. Management’s responsibility for financial reporting extends beyond compliance with GAAP to determining the “quality” of the company’s financial reporting within GAAP. In turn, the board of directors, largely through the audit committee, exercises oversight of management’s financial reporting, including the company’s annual (Form 10-K) and quarterly (Form 10-Q) filings with the SEC.



The independent audit firm's responsibility is to express an opinion as to whether the company's annual financial statements, including notes thereto, are presented fairly, in all material respects, in conformity with GAAP.<sup>4</sup> The auditor's report is the mechanism by which the audit firm communicates this opinion. The SEC does not accept filings that contain audited financial statements with qualified or adverse audit opinions.<sup>5</sup> Thus, for public companies, the auditor's unqualified audit opinion indicates that all material matters have been resolved.<sup>6</sup>

An essential element of the fundamental premise of financial reporting is that the auditor is not an original source of information about the company. Auditors' legal and ethical obligations recognize and reinforce this point by requiring that auditors treat all company-specific information as confidential.<sup>7</sup> Except in rare circumstances where management and the board of directors have failed to disclose certain information, as provided for under PCAOB auditing standards and SEC regulations,<sup>8</sup> auditors are *precluded* from disclosing any company-specific

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<sup>4</sup> Quarterly financials included in Form 10-Q filings with the SEC are reviewed by the auditor, rather than audited.

<sup>5</sup> The Concept Release does not explore the implications of this prohibition or suggest altering it.

<sup>6</sup> However, auditing standards provide that audit reports with unqualified opinions can contain additional explanatory or emphasis of matter language, including when there is substantial doubt about the entity's ability to continue as a going concern, there has been a material change between periods in accounting principles or their method of application, there are significant transactions with related parties, or unusually important subsequent events have occurred.

<sup>7</sup> Rule 301 of the American Institute of Certified Public Accountants ("AICPA") Code of Professional Conduct states that "a member in public practice shall not disclose any confidential client information without the specific consent of the client." The PCAOB did not adopt Rule 301 as part of its interim standards. Apparently the PCAOB's decision was based on a determination that incorporation of Rule 301 was not necessary to fulfill the Board's mandate under Section 103(a)(1) and (3) of The Sarbanes-Oxley Act of 2002 ("SOX"). The PCAOB has assured that this determination did not reflect a decision that auditor confidentiality requirements imposed by other authorities were inappropriate. In adopting conforming amendments in conjunction with Auditing Standard No. 6 ("AS No. 6"), *Evaluating Consistency of Financial Statements*, the PCAOB reaffirmed that it sought neither to modify nor detract from existing confidentiality requirements. Nonetheless, in approving AS No. 6 in September 2008, the SEC encouraged the PCAOB to develop and adopt a rule addressing the auditor's responsibility with respect to maintaining the confidentiality of client information. The PCAOB has yet to do so.

<sup>8</sup> Examples include information under certain circumstances in reports in connection with the termination of the audit engagement and reports that may be required pursuant to Section 10A(b)1 of the Securities Exchange Act of 1934 relating to an illegal act that has a material effect on the financial statements.

information to outside parties. Nonetheless, the Concept Release includes alternatives, in particular an AD&A, that represent a radical departure from the bedrock premise of financial reporting.

Further, at first blush it would appear that the proposed AD&A would be in direct conflict with the MD&A required by the SEC. Accordingly it would seem that such a system would provide competing disclosures that will increase complexity and create confusion for investors. Seemingly, that would appear to be a situation that the SEC could not allow to develop.

As described in the Concept Release, an AD&A would provide financial statement users with a view of the audit and financial statements “through the auditor’s eyes” (p. 13). Importantly, the Concept Release recognizes that the auditor’s perspectives about the company’s financial statements could differ from those of management.

According to the Concept Release, AD&A would give the auditor the ability to discuss significant matters, which could include such things as the auditor’s views regarding management’s judgments and estimates, accounting policies and practices, and difficult or contentious issues, including “close calls.” The Concept Release goes on to explain that:

*Additionally, an AD&A could provide the auditor with discretion to comment on those material matters that might be in technical compliance with the applicable financial reporting framework, but in the auditor’s view, the disclosure of such matters could be enhanced to provide the investor with an improved understanding of the matters and their impact on the financial statements. And, AD&A could also highlight those areas where the auditor believes management, in its preparation and presentation of the financial statements, could have applied different accounting or disclosures (p. 13).*

Needless to say, providing auditor views and perspectives would represent a profound shift in the role and responsibilities of the independent auditor vis-à-vis management and the board of directors/audit committee. AD&A would necessitate the auditor becoming an original and competing source of company-specific information.<sup>9</sup> While it is not clear that the PCAOB would have the authority to enact this sea change, on principle, the CCMC strongly disagrees with any move by the PCAOB in this direction.

Investors need factual information to make decisions with their goal being a return on investment. Those decisions are premised on the health, direction and management of a company. An auditor's opinion in AD&A may be considered Monday morning quarterbacking that may not even be welcomed by investors generally. For that matter why not create a disclosure on the opinions of top financial reporter's opinions on management decisions. While everyone may have an opinion, it may not provide relevant facts or substance for investment decisions.

Moreover, any such change in the fundamental premise of financial reporting would likewise have significant implications for auditors from the standpoint of legal liability. AD&A may even create new avenues for legal actions against auditors. For example, the U.S. Supreme Court recently reaffirmed its decision in *Central Bank*<sup>10</sup> that precludes private securities fraud actions against secondary actors such as auditors. As described in the Concept Release, it appears that an AD&A would move the auditor into the position of being an original maker of statements. The auditor would have ultimate authority and control over AD&A, including its content and

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<sup>9</sup> As subsequently discussed, a similar argument can be made for required and expanded use of emphasis of matter paragraphs in all audit reports as this alternative would necessitate that the *auditor* determine significant matters to highlight and reference where those matters are further disclosed by management in the financial statements.

<sup>10</sup> *Central Bank of Denver v. First Interstate Bank of Denver*, 511 U.S. 164 (1994).

whether and how to communicate it. As a consequence, Rule 10b-5 could then apply to auditors, as plaintiffs in private actions could allege the auditor directly or indirectly made an untrue statement of a material fact in connection with the purchase or sale of securities.

### **III. Additional Practical Considerations**

Setting aside disagreement on fundamentals, the Concept Release also does not appreciate the full range of practical implications from adding an AD&A requirement that go well beyond effects on the timing of the delivery of audit reports. For example, it seems unlikely that expressing auditor views on financial statement matters in an AD&A-type report could be the end of it. Investors and other third-parties would likely call for clarification, additional insights, and further explanations from auditors in order to understand the auditor's views and to help reconcile, as necessary, such views with those of management. Would auditors then need to issue press releases and hold conference calls to meet these demands for further information? Would SEC reviews by the Division of Corporation Finance come to involve reviewer comments addressed to auditors? Likewise, in putting the auditor in the position of being an original and competing source for financial information about the company, one can easily envision that an AD&A-type responsibility could create a material adverse interest with management and, therefore, raise questions about auditor independence under extant requirements.<sup>11</sup> And the list of problematic consequences goes on.

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<sup>11</sup> The Concept Release describes one rationale for an AD&A as being to "give the auditor greater leverage to effect change and enhance management disclosure in the financial statements, thus increasing transparency to investors" (p. 13). However, as previously discussed, this rationale involves transforming the role of the auditor vis-à-vis that of management and the board/audit committee. Additionally, the Concept Release fails to appreciate that under extant arrangements, the need for the financial statements to comply with GAAP to obtain an unqualified audit opinion provides auditors with powerful "leverage." Otherwise, extant auditing standards support the auditor's role in facilitating the operation of corporate governance mechanisms related to the quality of financial reporting, via requirements such as the one on auditor communications with audit committees about the "quality" of the company's accounting principles (within GAAP), in addition to their compliance with GAAP.

Other aspects of the AD&A alternative involve suggestions for an auditor narrative with information about the audit, including audit risks identified in the audit, audit procedures and results, and auditor independence. Regarding the latter, there is no indication in the Concept Release why current disclosures on auditor independence are inadequate, including proxy statement disclosures by audit committees. Indeed, it raises the question of whether investors participating in the PCAOB's outreach activities are even reading the information now available to them.

As to more information about the audit,<sup>12</sup> it is a difficult to envision how the auditor could condense all the work done on each engagement related to audit risks identified, audit procedures performed, and results obtained into a few sentences or even paragraphs. It is also a challenge to understand how any such condensation would be meaningful. PCAOB auditing standards, which are publicly available, provide the basis for performing audits. PCAOB inspections review the application of and adherence to such standards on individual engagements. The Concept Release does not make the case for why or how adding a reporting requirement for auditors to provide more details about their performance on each individual engagement would provide useful information to investors and other users.

Relatedly, the Concept Release is wanting when it comes to illustrating the alternatives. Illustrative examples that only contain placeholders for substantive information are unhelpful. The PCAOB should have developed substantive illustrations or even used field testing to assist in evaluating the usefulness and limitations of the various suggestions that emerged from their outreach activities *before* issuing a Concept Release.

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<sup>12</sup> More information about the audit is also suggested under the alternative for required and expanded use of emphasis of matter paragraphs. For example, the Concept Release states that "under this alternative, the auditor also could be required to comment on key audit procedures performed pertaining the identified matters" (p. 20).

Otherwise, legal considerations and the need for audit firms to maintain consistency across engagements and over time preclude alternatives involving auditor narratives from being “free-writing” exercises. Before mandating AD&A or the expanded use of emphasis of matter paragraphs on all audits, criteria would need to be developed by the PCAOB (and audit firms would likely need to further refine such criteria). Even information currently part of internal communications among auditors, management, and boards/audit committees cannot be moved to the public arena without such criteria. For example, PCAOB auditing standards related to auditor communications with audit committees recognize that “objective criteria have not been developed to aid in the consistent evaluation of the quality of an entity’s accounting principles as applied in its financial statements” (AU 380.11).<sup>13</sup>

All things considered, rather than meaningful information, requirements for AD&A and the expanded use of emphasis of matter paragraphs on all audits appear more likely to add boilerplate to that already cluttering SEC filings. Boilerplate is the tip of the financial reporting complexity iceberg.

As we previously discussed, because of overly complex and detailed periodic reporting, CIFI<sup>R</sup> likewise heard that investors want to be told “what matters.” However, after extensive deliberations, CIFI<sup>R</sup> did *not* recommend that auditors step-in to fill the breach; it did not recommend such things as an AD&A or required and expanded use of emphasis of matter paragraphs on all audits.<sup>14</sup> Rather, CIFI<sup>R</sup> recognized the importance

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<sup>13</sup> Moreover, altering the auditor’s responsibilities to involve external disclosure of AD&A-type information would likely transform current relationships and interactions among auditors, management, and boards/audit committees to the detriment of audit quality.

<sup>14</sup> Members of CIFI<sup>R</sup> included investors and representatives of other financial statement users along with financial executives and board members, auditors, and securities lawyers. In addition, the chairman of the PCAOB was an official observer on CIFI<sup>R</sup>.

of the fundamental premise of financial reporting, as previously discussed. Thus, CIFI<sup>R</sup> recommended that *management* provide a short executive summary at the beginning of a company's annual report on Form 10-K (with material updates in quarterly reports on Form 10-Q). CIFI<sup>R</sup> suggested the summary describe concisely the most important themes or other significant matters with which management is primarily concerned, along with a page index showing where investors could find more detailed information on particular subjects (p. 3).

#### IV. Additional Assurance Services

The Concept Release presents another alternative that would *require* auditors to provide assurance on information outside the financial statements such as MD&A (or portions thereof, such as critical accounting estimates), non-GAAP information, and/or earnings releases. Current PCAOB auditing standards describe the auditor's responsibilities regarding other information outside the financial statements in documents containing audited financial statements. These responsibilities include reading and considering whether such information or the manner of its presentation is materially inconsistent with the financial statements or represents a material misstatement of fact. The Concept Release fails to make the case for why this current arrangement is inadequate. Likewise, the Concept Release fails to identify the flaws in earnings releases that would be fixed with auditor assurances or how such assurances would otherwise be value-added in this context.

Moreover, extant PCAOB attest standards allow the auditor to be engaged to attest on MD&A and the standards provide requirements for such engagements. Yet, few if any public companies engage their auditors for this additional assurance service on MD&A. Further, CCMC is not aware of any instances where shareholders have requested a company to do

so. The lack of any voluntary demand for additional assurance services is revealing and provides a basis for concluding that proposals to *mandate* such services fail cost/benefit considerations.

## V. Adding Clarifying Language to the Auditor's Report

The fourth alternative presented in the Concept Release would provide for adding clarifying language in the existing standard auditor's report. The Concept Release suggests that language around reasonable assurance, the auditor's responsibility for fraud, the auditor's responsibility for financial statement disclosures, management's responsibility for the preparation of the financial statements, the auditor's responsibility for information outside the financial statements, and auditor independence would be potential areas for clarification. These suggestions represent refinements to the current auditor's report and, overall, are not objectionable in concept, although it is hard to argue the need for all of them individually. For example, in regards to independence, currently the audit report is labeled as the "report of the independent registered public accounting firm" and, as previously noted, proxy statements provide disclosures on auditor independence. So, it is not clear why any further disclosures contemplated by the Concept Release would be useful information rather than added boilerplate.

## VI. Going Concern Reporting and Disclosures

At the PCAOB's open board meeting on June 21, 2011 to approve the Concept Release, one board member focused on going concern reporting by auditors. For example, the statement of Mr. Harris has an entire section on "Going Concern Opinions: A Rarely Used Tool." This is curious because the Concept Release is *silent* on this topic; and, it creates some confusion about the direction of this auditor reporting initiative.



Going concern is long recognized as an area in need of FASB attention. Although the financial statements are prepared on the assumption that the entity will continue as a going concern, auditing standards contain the only real guidance on going concern. More than a decade ago, the Final Report (August 31, 2000), of the Panel on Audit Effectiveness recommended that the FASB (1) define the going concern concept and clarify that management, not the auditor, has the primary responsibility to assess whether the entity has the ability to remain a going concern, (2) consider the appropriateness of the one-year time horizon in SAS No. 59 (i.e., the FASB should evaluate this time horizon and recognize its importance to auditors in framing their audit reports), and (3) promulgate explicit going concern disclosure requirements to fit various circumstances (pp. 61-62).

The FASB has had a going concern project on its agenda for a number of years now, but the FASB has yet to finalize any guidance in this area. If the PCAOB heard from its outreach activities in response to the 2008 economic crisis that this is an area of concern for investors, it would seem that this project should have provided a golden opportunity for the PCAOB board itself to become engaged in working with the FASB and SEC to overcome this perceived deficiency in GAAP and address other issues related to the auditability of GAAP.

## **VII. Outreach, Transparency, and Cost/Benefit Considerations**

Chairman Doty's statement at the PCAOB's open board meeting notes the "fluid" nature of feedback from the PCAOB's outreach activities on this project. However, this raises issues about the transparency of the PCAOB's outreach activities.

On one hand, the CCMC appreciates the extensive discussion of the feedback received by the PCAOB's staff from its outreach activities contained in the Concept Release, including Appendix C. On the other hand, the discussion is mostly confined to the alternatives pursued in the Concept Release rather than those considered but dropped along the way (e.g., going concern reporting).

In addition, it is difficult to interpret the information in the Concept Release because discussions with participants were private (no transcript is publicly available of the outreach discussions) and apparently informal (the PCAOB has provided no sample questionnaire or interview script).<sup>15</sup> Further, the Concept Release does not identify the number of participants in the PCAOB's outreach activities or list their names and organizations. And, while overall categories of participants are given, discussions of the various views, in particular those in Appendix C, mostly just combine all categories into "outreach participants," with only qualitative information on the degree of commonality in views noted by using terms such as "some" or "many" outreach participants.

The CCMC strongly agrees that the PCAOB should consult with and have access to a full range of perspectives among all users of financial statements. However, these activities need to have transparency. The CCMC appreciates that the PCAOB has included auditor reporting issues on the agendas at various public meetings of its advisory groups, including its Standing Advisory Group ("SAG") and IAG. Public roundtables are another mechanism for conducting public outreach with transparency and the PCAOB has announced plans to hold one or more roundtables in conjunction with this project. Nonetheless, as noted, the CCMC has

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<sup>15</sup> CCMC understands that the PCAOB includes the March 2011 Investor Advisory Group ("IAG") survey as part of its outreach activities and some details of participants in that survey are publicly available, including that IAG members themselves were among the survey participants.

concerns about the lack of transparency around many of the PCAOB's outreach activities that produced this Concept Release, which are consistent with concerns the CCMC has previously expressed about the transparency of the PCAOB's activities and due process generally.<sup>16</sup>

Finally, most of the reporting alternatives presented in the Concept Release would involve additional costs. Feedback from the PCAOB's investor outreach that informed the alternatives presented in the Concept Release appears to underplay the existence and significance of any additional costs. Indeed, in the main, it does not appear that cost/benefit considerations played a major role in the discussions with outreach participants.<sup>17</sup>

### Conclusion

In conclusion, the CCMC appreciates the opportunity to comment on the Concept Release. In closing, we would like to reiterate that the CCMC supports working to achieve one set of global high quality auditing standards through the convergence of PCAOB auditing standards with those of the AICPA's Auditing Standards Board ("ASB") and the International Auditing and Assurance Standards Board ("IAASB"). In this regard, CCMC notes that the Concept Release gives short shrift to activities by other audit standard-setters related to auditor reporting and fails to provide any comparison of relevant portions of PCAOB auditor reporting standards with those of the ASB and IAASB as part of considering improvements to PCAOB auditing standards. The CCMC

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<sup>16</sup> For example, see the October 7, 2009 letter from the U.S. Chamber of Commerce CCMC to the Honorable Daniel L. Goelzer, Acting Chairman of the PCAOB.

<sup>17</sup> For example, during discussions at the March 2011 IAG meeting, some IAG members dismissed cost concerns for AD&A with assertions that no additional audit work would be required as auditors would just be disclosing to investors information currently communicated with audit committees.

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encourages the PCAOB to reconsider its “go it alone” approach to audit standard-setting.

Thank you for your consideration and the CCMC stands ready to assist in these efforts.

Sincerely  
