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Fidelity INVESTMENTS

September 30, 2011

VIA ELECTRONIC MAIL

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: **PCAOB Rulemaking Docket Matter No. 34; PCAOB Release No. 2011-003; Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to the PCAOB Standards**

Ladies and Gentlemen:

FMR LLC, which is commonly known as Fidelity Investments ("Fidelity")[1], appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board's ("PCAOB") with respect to its *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* ("Concept Release"). Our comments are intended to address the application of the four alternatives proposed for changes to the auditor's reporting model in the Concept Release on open-end investment companies (or "mutual funds") registered under the Investment Company Act of 1940 ("1940 Act") and clearing and introducing broker-dealers ("broker-dealers") registered with the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934 ("1934 Act").

Overall, Fidelity agrees with the PCAOB's objective of improving the auditor's reporting model to increase transparency into the audit process and the relevance of the auditors report to users of financial statements, while maintaining the quality of the financial statement audit. Fidelity believes that the PCAOB's approach to rulemaking in this area should be guided by the principle that the financial statements, including disclosures regarding significant estimates and judgments, are management's responsibility. Consistent with this principle, any changes to the audit opinion should (i) help clarify information about the audit and not create confusion about the opinion rendered by the auditor and (ii) balance the benefits of these changes, notably the value added to the users of the report, with the potential costs of these changes, such as the additional burdens placed

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[1] Fidelity Investments is one of the world's largest providers of financial services, with assets under administration of $3.4 trillion, including managed assets of more than $1.5 trillion, as of August 31, 2011. Fidelity Investments is a diversified, privately held financial services company that includes Fidelity Management & Research Company ("FMR"), which serves as the investment advisor for the 411 registered investment companies in the Fidelity Group of Funds with aggregate net assets of over $1 trillion, as well as several FINRA registered broker-dealers, including Fidelity Brokerage Services LLC, an introducing broker-dealer with the nation's largest fund supermarket offering that provides services to over 12 million customer accounts with over $1.5 trillion in assets under administration, and National Financial Services LLC, a clearing broker-dealer that serves approximately 300 unaffiliated broker dealers. In addition, Fidelity is one of the largest retirement plan service providers, providing investment management, recordkeeping, brokerage, consulting, directed trustee and custodial services to over 18,000 defined contribution plans that cover more than 12 million participants.

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on financial statement preparers that could increase the risk of meeting regulatory deadlines. Below, Fidelity comments on each of the four alternatives discussed in the Concept Release.

The first alternative presented in the Concept Release is the inclusion of a supplemental narrative by the auditor (described as an "Auditor's Discussion and Analysis" or "AD&A") as part of its report. Fidelity sees little benefit of the inclusion of an AD&A in the auditor report for mutual funds and broker-dealers in which the auditor would be required to provide additional information about the audit and the company's financial statements. The preparation of mutual fund financial statements requires few significant estimates and judgments. The key audit risks relate to the existence and valuation of the investment portfolio, which for most mutual funds is comprised of securities valued based on observable inputs. FASB Topic 820 *Fair Value Measurements* ("Topic 820") sets forth measurement and disclosure principles and requires management to provide extensive disclosure on its valuation policies. Recent updates to Topic 820 have expanded the disclosures about fair value measurements to include more information about transfers between Levels and the sensitivity of Level 3 securities.[2] Fidelity believes that inclusion of additional information from the auditors about the procedures performed to support the opinion rendered by the auditor would add little benefit in light of the recent updates to Topic 820 and may create investor and shareholder confusion about such opinion.

For broker-dealers, the objectives of the financial statement audit are discussed in Rule 17a-5 under the 1934 Act. Rule 17a-5 currently requires broker-dealers to file an annual report with the SEC that includes financial information and supporting schedules which are audited by an independent public accountant. An audit of a broker-dealer not only requires the auditor to express an opinion on the financial statements as a result of procedures performed in accordance with generally accepted auditing standards, but to report on the adequacy of internal controls in accordance with Rule 17a-5 and compliance with specific rules addressing financial responsibility and recordkeeping. Fidelity believes that the amendments recently proposed by the SEC[3] and the resulting PCAOB proposed guidance[4] concerning Rule 17a-5 provide the users of the broker-dealer financial statements with sufficient information such that the inclusion of an AD&A to the audit opinion would not be required. In addition, Fidelity believes that the enhancements to significant accounting policies through changes made to accounting guidance[5] and changes that are in the

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[2] FASB ASC 820-10-50-2.

[3] *Proposed Amendments to Rule 17a-5 Under the Securities Exchange Act of 1934; Release No. 34-64676, 76 Fed. Reg. 37572; File No. S7-23-11 (the "Release")* that would become effective for annual reports filed with the SEC for fiscal years ending on or after December 15, 2011.

[4] PCAOB Rulemaking Docket Matter No. 035 - *Proposed Standards for attestation engagements related to broker and dealer compliance or exemption reports required by the U.S. Securities and Exchange Commission and related amendments to PCAOB standards* and PCAOB Rulemaking Docket Matter No. 036 – *Proposed Auditing Standard Related to Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards.*

[5] Recent enhancements to Topic 820 as noted above as well as enhancements to *Transfers and Servicing (Topic 860) Reconsideration of Effective Control for Repurchase Agreements* which improved the accounting for repurchase agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity.

process of being addressed by the FASB[6] will increase the already transparent significant transactions reflected in the broker-dealer financial statements to the users of those statements.

The second alternative would require use of expanded emphasis paragraphs in all audit reports. Fidelity believes this additional disclosure could be beneficial to financial statement users by highlighting matters of significance to the auditor and where they are disclosed in the financial statements. This would increase the transparency of the audit. Fidelity recommends, however, that the PCAOB develop guidance on the auditor's use of emphasis paragraphs to ensure that there is consistency in application across industries and audit firms. As an example, certain audit risks are very specific to broker-dealers[7]; therefore, guidance should be provided for preparing the use of emphasis paragraph to ensure that it is consistently used by these entities.

The third alternative would require auditors to provide assurance on information outside the financial statements, such as management discussion and analysis ("MD&A") and earnings releases. SEC registered mutual funds are not required to present an MD&A (or earning releases), but instead provide a management discussion of fund performance ("MDFP"). The MDFP is limited to a discussion of factors that materially impacted fund performance, such as market conditions and investment strategies, and returns for the fund. Given the purpose of the MDFP for mutual funds, we see limited benefit of auditor assurance on this disclosure.

SEC registered broker-dealers are also not required to present an MD&A or earning releases. The only information provided outside the financial statements are the schedules currently required by Rule 17a-5, on which the SEC has recently proposed amendments.[8] We believe that the changes already proposed by the PCAOB in Docket Matter 36 would provide the users of the financial statements with sufficient assurance regarding the schedules.[9]

Fidelity believes that the fourth alternative, which would seek to include in the standard auditor's report clarifying language about what an audit represents and the related auditor responsibilities, could benefit users of mutual fund and broker-dealer financial statements by providing a better understanding of the terms used in the report and by illustrating the responsibilities of management and the auditor. In implementing this approach, Fidelity recommends that the PCAOB consider the addition of clarifying language in the audit opinion regarding the auditor's responsibility on evaluating internal controls for purposes of planning the audit procedures to be performed. For example, mutual fund financial statements represent the culmination of a large volume of investment and shareholder transactions that are executed for the period covered by the audit based

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[6] Current FASB/IASB joint projects such as (but not limited to) Consolidation, Revenue Recognition, and Accounting for Financial Instruments.

[7] Risk primarily relates to obtaining and maintaining physical possession and control of all fully paid and excess margin securities, complying with Regulation T, and making the quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Exchange Act Rule 17a-13 as well as significant accounting policies specific to the industry such as fair value measurements, derivatives, and repurchase agreements.

[8] *See, infra,* footnote 3.

[9] *See, infra*, footnote 4.

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on GAAP. As part of the audit, the auditor evaluates internal controls relevant to the preparation and fair presentation of the financial statements, including the controls around the processing of these types of investment and shareholder transactions. We believe additional information on how the auditor evaluated controls around these transactions to plan procedures to be performed for the audit will provide more context for shareholders or investors in these types of entities.

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In closing, Fidelity appreciates the opportunity to respond to the Concept Release and welcomes the opportunity to meet with you to discuss any of the issues addressed in this letter. Fidelity also urges the PCAOB to perform a cost/benefit analysis of the alternatives considered before implementing any changes to the auditor report to help demonstrate why a particular alternative was chosen.

Very truly yours,

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