



Federal Housing Finance Agency

Constitution Center

400 7th Street, S.W.

Washington, D.C. 20024

Telephone: (202) 649-3800

Facsimile: (202) 649-1071

www.fhfa.gov

December 11, 2013

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

Dear Office of the Secretary:

The Federal Housing Finance Agency (FHFA or Agency) welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) proposed auditing standards on *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards*, PCAOB Release No. 2013-005, PCAOB Rulemaking Docket Matter No. 34 (the proposed auditing standards).

FHFA commented on the Board's 2011 Concept Release on possible revisions to auditor's report (the 2011 Concept Release) in a letter dated September 30, 2011. In that letter, FHFA indicated support for (1) requiring an Auditor's Discussion and Analysis as a supplement to the standard auditor's report, (2) amending the format and content of the current standard auditor's report to improve clarity, and (3) requiring the auditor's assurance on other information outside of the financial statements, such as the Management's Discussion & Analysis (MD&A), earnings releases, and other non-generally accepted accounting principles (non-GAAP) information.

As the regulator of the Federal Home Loan Banks and the regulator and conservator of Fannie Mae and Freddie Mac, FHFA considers audited financial reports by its regulated entities an important input to the Agency's safety and soundness supervision process. The Agency therefore supports the proposed auditing standards' requirements that the auditor's report communicate:

- (1) critical audit matters (CAMs);
- (2) a statement relating to auditor independence;
- (3) a statement relating to auditor tenure;
- (4) the auditor's responsibilities to evaluate and report on other information; and
- (5) more detailed information related to the auditor's responsibilities for fraud.

Further comments by FHFA are detailed on the following pages.

I. CAMs

The Board has proposed, and FHFA concurs, that the auditor “communicating critical audit matters would provide investors and other financial statement users with previously unknown information about the audit that could enable them to analyze more closely any related financial statement accounts and disclosures.” Having the external auditor provide such information would allow financial statement users to better understand the significant and complex areas of an audit.

FHFA is concerned, however, that the proposed auditing standard may result in auditors including a significant number of items as CAMs, rendering the auditor’s report voluminous and possibly less useful to investors. Therefore, the Agency recommends that the PCAOB limit the CAMs included in the auditor’s report to the most critical audit issues identified in the engagement, and set a limit to these CAMs, either a set number or range.

To foster consistency and utility in determining the scope of CAMs and the level of detail describing them in audit reports, FHFA also recommends that PCAOB publish more specific guidance as to what would constitute a CAM. FHFA believes that the Board’s decision to collect and consider examples of CAMs from commentators will assist the PCAOB in identifying changes to its guidance that can provide sufficient clarity to external audit firms working to comply with the auditing standard.

II. A statement relating to auditor independence

It is critical that auditors are independent and thus capable of exercising objective and impartial judgment. The PCAOB has proposed that the auditor’s report include a statement that the auditor is “required to be independent with respect to the company in accordance with the United States federal securities laws and the applicable rules and regulations of the SEC and PCAOB.” While that statement is an important component of the auditor’s report, it does not affirm whether or not an auditor is independent.

FHFA would like the standard to also include language requiring auditors to affirm that they are in fact independent and in compliance with applicable independence rules. In July 2013, the International Auditing and Assurance Standards Board (IAASB) issued the exposure draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing*, to enhance auditor reporting globally. IAASB’s exposure draft proposes a positive and explicit statement that the auditor is independent.

III. A statement relating to auditor tenure

The proposed auditing standards would require a statement containing the year the auditor began serving consecutively as the company’s auditor. This would provide greater transparency for investors to use in assessing whether an auditor’s tenure, whether short

or long, could affect the auditing firm's audit quality or their objectivity in planning and conducting financial statement engagements.

The Board's release indicates that while academic research on the impact of auditor tenure on audit quality is divided, "investors and other financial statement users have indicated strong interest in this information." The Board's release also mentions that disclosure of tenure has been considered by other regulators and standard setters, and cites the example of rules adopted by the United Kingdom Financial Reporting Council that require UK-listed companies to disclose the length of auditor tenure in a separate section of the annual report. For purposes of transparency with financial statement users, FHFA agrees with the Board that auditor tenure information should be located in the auditor's report.

IV. The auditor's responsibilities to evaluate and report on other information

The proposed standard for other information is designed (1) to improve an auditor's identification of material inconsistencies or material misstatements between the financial statements and other financial-related data in the Form 10-K annual report and (2) to improve auditor procedures to allow auditors to evaluate such other information. Under the Board's proposal, auditors would be required to read and evaluate information outside the financial statements, rather than just read and consider as is currently permitted by AU Section 550, *Other Information in Documents Containing Audited Financial Statements*.

While FHFA supports the Board's proposal for the evaluation of other information in the annual report, FHFA believes that it should also be extended to earnings releases as this information is relevant to the investor community. However, FHFA suggests the Board consider describing with more specificity as to what "evaluate" actually means in terms of procedures required to be performed by the auditor, so there would be consistency in how this is applied across audit engagements and firms. In addition, FHFA recommends that the Board establish enhanced guidance by field testing how audit firms would apply the guidance proposed.

V. More detailed information related to the auditor's responsibilities for fraud

The Board's proposal adds the phrase "whether due to error or fraud" in the auditor's report to describe the auditor's responsibilities to obtain reasonable assurance about whether the financial statements are free of material misstatement. Also, in identifying the audited financial statements the auditor's report would be required to refer to "related notes." FHFA concurs with the Board's proposal to make these additions to the standardized language in the auditor's report.

With regard to the Board's reproposal related to *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*, consistent with our comments provided on the 2011 Concept Release, FHFA recommends that the Board consider requiring the audit engagement partner's signature be included as part of the auditor's report.

Thank you for the opportunity to provide the Agency's views on the Board's proposals. FHFA hopes the Board and staff will find these comments and recommendations helpful. If the Board and staff have any questions or comments regarding this letter, please feel free to contact me at 202-649-3450.

Sincerely,



Nicholas J. Satriano
Chief Accountant
Federal Housing Finance Agency
