



**NEW YORK
CITY BAR**

**COMMITTEE ON
FINANCIAL REPORTING**

December 9, 2013

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Ms. Phoebe W. Brown
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. 034*

Dear Ms. Brown:

On behalf of the Committee on Financial Reporting of the Association of the Bar of the City of New York, I respectfully submit this letter regarding the proposed auditing standard entitled "The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report" (PCAOB Release No. 2013-005 – August 13, 2013). This letter is also supported by the Bar Association's Committee on Securities Regulation.

By way of introduction, the Committee on Financial Reporting consists of attorneys representing different roles and perspectives within the financial reporting community, including preparers, users, and auditors. An important objective of the Committee is to enhance the integrity of financial reporting systems in order to foster the objectivity, understandability, and reliability of financial reports. The Committee seeks to improve financial reporting integrity through the

enhancement of the rules and regulations of financial reporting as well as the culture in which those rules and regulations are called upon to function.

We very much share the Board's objective of improving the usefulness of financial reporting and appreciate the Board's efforts to that end. And we certainly share the Board's view that information reported in audited financial statements, and "other information" included in documents containing the audited financial statements, should not be inconsistent. However, we are concerned that the proposed audit standard may prove to be counterproductive. In summary, we are concerned that a consequence of the proposed standard, insofar as it would subject "other information" to explicit auditor reporting, may be that such "other information" becomes less useful.

The basis for our concern centers on the fact that auditor processes are more effectively directed to the evaluation of objective, rather than subjective, information. It is true, of course, that much "other information" is objectively verifiable and therefore susceptible to effective auditor evaluation. Much other information, however, is significantly less so. That is particularly the case as to aspects of information regarding trends, strategy, challenges, risks, and other more judgmental aspects of business activity.

We do not understand how an auditor's normal processes would allow it to effectively evaluate and report on such information. We are concerned that, instead, a requirement of auditor evaluation and reporting may result in an inclination by preparers to facilitate auditor approval through increased emphasis upon objectively verifiable information. From the perspective of users, such an inclination would be unfortunate insofar as a commonly expressed frustration with business disclosure today involves its presentation in the form of disaggregated numerical detail at the expense of broader discussion that explains how the data fits with the company's performance and prospects.

Our concerns are exacerbated by the logistics of the modern day audit environment. Today's audit takes place in an environment of increased expectations, increased demands for documentation, and accelerated deadlines. We can readily foresee scenarios in which the difficulties of auditor evaluation of subjective information would create a risk of delay ultimately resulting in, again, an inclination by preparers to favor data that can be more readily verified.

Nor are we familiar with an underlying problem that would justify these consequences. We understand the desire of the investment community for greater transparency into management decision-making and company prospects. But we do not believe this proposed standard addresses that. Rather, the standard seems directed to an entirely different issue: the potential for inconsistency between audited financial statements and other information. But that is an issue that, at least in our experience, rarely if ever comes up. In our experience, the much more frequent complaint involves the difficulties and tediousness of review of disaggregated detail.

In terms of cost-benefit analysis, therefore, our own judgment would suggest that the costs greatly outweigh the benefits. We see little if any benefit to the standard. The costs would include not only higher audit fees but higher internal costs associated with auditor involvement

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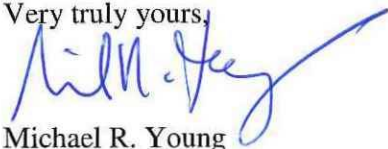
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in the substance of information, which is already extensively reviewed by multiple departments within the reporting entity, beyond the scope of the auditor's normal systems for evaluation.

At root, we are of the view that transparency in "other information" is best served by giving management the opportunity to describe its business activity as management sees fit constrained by the obligations to tell the truth and otherwise to fulfill legal requirements. If management does not fulfill these obligations, legal means of redress and corrective mechanisms of corporate governance already exist. The installation of an additional layer of evaluation and reporting, and with it the risk of increased emphasis upon disaggregated detail at the expense of more subjective analysis and discussion, strikes us as counterproductive. We would therefore respectfully submit that this proposed standard should not be adopted.

We thank the Board for the opportunity to submit these comments and congratulate the Board on its continuing efforts to enhance the systems of financial reporting.

Very truly yours,



Michael R. Young

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The content of this letter does not necessarily reflect the views of any institution or organization with whom a member of the Committee on Financial Reporting is affiliated.