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Prepared Remarks before the PCAOB
Proposal on the Auditor's Reporting Model
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Thank you for the opportunity to be here today and share BlackRock's view regarding the proposed changes to the Auditor's Reporting Model. BlackRock is a global investment manager overseeing $4.3 trillion of assets under management at December 31, 2013. BlackRock and its subsidiaries manage approximately 3,400 investment vehicles, including registered investment companies, hedge funds, private equity funds, exchange traded funds and collective investment trusts, in addition to separate accounts.

As an investment manager, BlackRock is in the position to provide commentary on the Proposal from the perspectives of: a) a corporate preparer, b) an investment fund preparer and c) a user (i.e., BlackRock's research analysts). For purposes of my remarks today, my response primarily reflects those of our research analysts as users of both financial statements and auditors' opinions.

We commend the PCAOB for undertaking a project to enhance auditor communications and provide information useful to users of financial statements. Overall, we support the concept of communicating critical audit matters. As users of financial statements, our analysts find value in identifying critical audit matters, particularly matters resulting from changes in principles or areas that involve significant judgment, which therefore may require further analysis and discussion with management in order to be properly understood and reflected in analyst models. The additional information provided will be particularly useful to our analysts to the extent it leads to a better understanding of financial risks, including future cash flows of a company. We are concerned, however, that some investors may misinterpret the communication of a critical audit matter as indicative of an issue with respect to the quality of the financial statements and therefore suggest that additional language be added to the auditor's report to explain that critical audit matters are not necessarily indicative of a financial statement deficiency.

We wish to emphasize that certain entities, such as 1940 Act investment companies, have inherently less complex business models than operating companies and therefore may not warrant disclosure of critical audit matters. Because mutual funds' assets are primarily invested in securities, it is likely that only fair valuation of investments would be deemed a critical audit matter. Given the extensive disclosures required under Accounting Standard Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, we recommend clarifying that routine audit procedures such as testing Level 1 or 2 fair valuation inputs would not be deemed critical audit matters, absent significant judgments therewith. Accordingly, we suggest there should be a rebuttable presumption that the auditor's report on most investment companies would state that there are no critical audit matters to communicate.

From a preparer's perspective, we believe there will be additional time and expense associated with interacting with and providing information to the auditors in connection with their required assessment and reporting of critical audit matters and their documentation of such matters. We do not believe that the auditor should be required to document why all other possible critical audit matters were not included as critical audit matters in the auditor's report.

We continue to recommend that the description of the critical audit matters in the auditor's report exclude audit procedures performed or an indication of the resolution. In order for the auditor to convey the context around such matters, it may be necessary to include expansive details that could overwhelm the auditor's report. Additionally, inclusion of such information may lead a user to believe the auditor is expressing a "piecemeal" opinion on individual matters, and any audit procedures enumerated may be taken out of context or misunderstood given their necessarily abbreviated descriptions.

With regard to the auditor's responsibilities for other information, BlackRock supports including a statement clarifying the auditor's responsibility for other information in documents containing financial statements. We do not support changing the auditor's responsibility for other information to "evaluate" such information versus the current requirement to "consider" the information. We believe that the scope of audit procedures involved in evaluating the "material inconsistency" and "material misstatement of fact" criteria should be related solely to financial information included in a filing, such as MD&A and exhibits, and should not extend to documents incorporated by reference (some of which

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may have been partially superseded) or other non-financial information. However, if procedures are applied to other non-financial information, these criteria may require significant judgment given the complexity of many corporate agreements. The costs associated with such procedures (including preparation of related audit documentation) would not justify the benefit received. Many analysts and users of financial statements already assume that MD&A and exhibits are read by the auditors for consistency with the financial statements. Accordingly, we believe that reporting on those procedures performed would clarify the auditor's role and responsibility.

In closing, we support the Board's efforts for increased transparency and providing additional useful information to users of financial statements. We believe that succinct disclosure of critical audit matters in the auditor's report is a step forward toward accomplishing that goal. We encourage the PCAOB to work together with the IAASB to standardize, to the extent possible, the form and content of the auditor's report in order to increase comparability and ease of use for users who may be readers of reports subject to both sets of standards.

Thank you for your time and attention to this matter.