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American Bankers Association
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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Via website submission: comments@pcaobus.org

Re: Docket Matter No. 041: Concept Release No. 2015-05 – *Audit Quality Indicators*

To Whom It May Concern:

The American Bankers Association (ABA[1]) appreciates the opportunity to comment on the Concept Release *Audit Quality Indicators* (CR). The CR defines various measures (Audit Quality Indicators, "AQIs") which may inform discussions among those concerned with the financial reporting and auditing process (for example, audit committees). The PCAOB hopes AQIs will strengthen audit planning and communication, as well as stimulate competition among audit firms. As members of ABA are both preparers of financial statements and users of financial statements, usage of AQIs is a topic of keen interest.

AQIs can, if used appropriately, be an invaluable tool for audit committees in their evaluations of services provided by their independent auditors. The list of AQIs presented in the CR appears to represent a sound starting point for audit committees to evaluate their current auditing firm. However, ABA urges the PCAOB to tread very cautiously when pursuing public disclosure of any AQI scores, because it could eventually and incorrectly imply that all companies and their auditors have a common understanding of audit quality. Public disclosure of the scores will require careful and deliberate education of Board members and the investing community so they understand what the measures can mean. More important, these constituencies must understand what individual AQI scores may not mean in relation to the quality of the services provided to the individual company. Many AQI scores are judgmental, and virtually all, when taken individually, can be irrelevant to the audit services provided to an individual company during a specific reporting period.[2]

The amount of technical expertise and judgment required during an audit of a bank (including, but not limited to estimates of loan losses, fair value measurements, sale accounting, accounting for derivatives) can vary widely, based on the bank's size, geographic location, and product mix.

[1] The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $14 trillion banking industry and its two million employees.

[2] Because of the timing lag of certain auditing firm internal quality review reports and PCAOB inspection reports, public disclosure of such AQI scores may provide an inaccurate indication of audit quality during a specific year. Another example includes company dissatisfaction with specific audit personnel during year end procedures. If this has been addressed by the auditing firm through the assignment of more experienced personnel during the next quarter, any published AQI will potentially mislead readers.

Many bank audit committees may need relatively minimal contact with their auditors, while others require more regular contact. Some auditing firms (such as smaller, locally-based auditing firms) are able to more effectively audit their clients because of the intimate knowledge of the local economy they bring or responsiveness to client operational changes that they can provide, while others (larger firms) may have sheer manpower across many different specialties. When all is said and done, "quality" is often in the eyes of the individual audit committee, taking many different factors into account.

When combined with the disclosures proposed by the Securities and Exchange Commission that address the process on how the audit committee appoints and retains the auditor, the AQIs are ripe for misinterpretation. Audit committees will be required to address investor questions prompted by AQI scores that may be merely tangentially related to their decision to retain the current auditor. We believe this effort could eventually result in effectively commoditizing audit services, with arbitrary scoring formulas dictating audit committee decisions.

Even when used reasonably, such a system may often lead to inaccurate conclusions regarding audit quality and effectiveness. For example, no matter the diligence of the audit committee or the auditor, restatements can happen. With the significant accounting standard changes expected to be made over the next several years in regards to loan impairment, leases, and revenue recognition – all requiring significantly more judgment than under current accounting standards – the risk of financial reporting restatement is likely to grow. Investors who believe that high AQI scores will minimize the chance of restatement may be sorely disappointed.

Audit committee management of the auditors is ultimately based on something very judgmental – trust. While it may be desirable to have a centralized location to research and compare accounting firms (especially lesser known firms those that are regionally or locally based), an effort to encourage quantitative analysis of audit quality could turn audits in commodities. We believe a commoditization of audit services, whereby performance and value are predominately based on arbitrarily-weighted AQIs that may or may not be current, may not only result in less efficient and effective audits, but may also unintentionally discourage the use of smaller auditing firms due to their availability (or unavailability) of resources "on paper." If such AQIs are subject to public scrutiny, the importance that investors and others will assign to each AQI may force audit committees to reduce their own judgment and increase their reliance on systematically-derived AQI scores when managing the auditor relationship. We believe this would not be a favorable result for investors or for audit committees.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,

Michael L. Gullette