

December 11, 2013

Office of the Secretary
PCAOB
1666 K Street, NW
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comments@pcaobus.org

Re: **PCAOB Release No. 2013-005, PCAOB Rulemaking Docket Matter No. 34, *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 (the "Proposal")***

Members of the Board of the PCAOB:

The Clearing House Association L.L.C. ("The Clearing House"),¹ an association of major commercial banks, appreciates the opportunity to comment on the above-referenced Proposal. We support efforts to improve audit quality that will enhance investor confidence in and understanding of the audit process and the auditor's responsibilities. However, we believe that key aspects of the Proposal will not achieve the PCAOB's stated objective: "to make auditor reporting more relevant and useful to investors and other financial statement users."² Accordingly, we do not support the Proposal in its current form. In summary, our principal concerns are as follows:

- The proposal to add a discussion of critical audit matters ("CAM") to the auditor's report may result in investors assuming that auditors are effectively qualifying their audit opinion on selected areas of the financial statements as compared to the current "pass/fail" system; instead of providing investors with more useful information it may simply create confusion about the report. The onus to prepare and provide such information should continue to be on management rather than originating with auditors;
- requiring the auditor to evaluate other information will require additional audit procedures that are unnecessary in light of existing management certification disclosure requirements and it will

¹ Established in 1853, The Clearing House is the oldest banking association and payments company in the U.S. It is owned by the world's largest commercial banks, which collectively employ over 2 million people and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing—through regulatory comment letters, amicus briefs and white papers—the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S. See The Clearing House's web page at www.theclearinghouse.org.

² Proposal, page 10.

be very challenging for auditors to develop and perform audit procedures on forward-looking information; and

- the Proposal will result in increased costs to both preparers and auditors and are not justified by the benefits of the Proposal.

1. Including CAMs in the audit report is unnecessary, will reduce the clarity of the audit and internal control opinions, and may increase confusion regarding the auditor's responsibility.

We are concerned that the proposal to add a discussion of CAMs to the auditor's report may actually increase investor confusion regarding the audit report. By definition, the audit report would be discussing issues that were satisfactorily resolved and deemed not material to the financial statements. We believe most investors will continue to look only to see whether a company has received an unqualified ("clean") opinion and has no material deficiencies in internal controls. The proposed discussion of CAMs in the audit report may serve to obscure those conclusions and may provide a less clear picture to investors about the financial statements taken as a whole and the overall effectiveness of the system of internal controls.

We fully support the existing "pass/fail" model as it provides consistency, clarity and comparability of reporting, and is well understood by investors and users of financial statements. An unqualified opinion means that all material matters have been resolved and that the auditors are in agreement with management that the financial statements do not contain any material misstatements. In contrast, disclosure of CAMs, which would describe those areas that posed the most difficulty to the auditor and why they were difficult, could create the impression that the auditor is uncomfortable with or "second-guessing" management's decisions; as a result, users may perceive that the auditor is effectively qualifying their opinion on different areas of the financial statements.

At the same time, disclosure of CAMs could increase the audit "expectation gap" by blurring the line between management and the auditor's responsibility. The fact that such disclosures originate with the auditor could suggest that the auditor, rather than the company, has the responsibility to prepare financial statements and disclosures in compliance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP").

We strongly believe that the audit report should be limited to describing the auditing procedures performed and related matters. It should not be presumed that expanding the report to include CAMs would serve as guidance for investors and other users of financial statements and annual reports to better understand how the audit was performed or the effectiveness of the audit. We believe the example disclosures provided in the proposal that discuss the extent of national office consultations, highlight internal control deficiencies that were less severe than a material weakness, and errors that were corrected, could easily be interpreted in multiple ways and illustrate the confusion that may arise when users are presented with an unqualified opinion. Moreover, auditors should not be responsible for disclosing information for which they are not the original source, or even have the appearance of doing so; rather, the onus to prepare and provide financial reporting information should continue to be on management, and the auditor's role should be limited to opining on such information.

It appears that the primary purpose of the Proposal is to highlight significant accounting disclosures and risks for users of financial statements. We believe the sections of Management's Discussion and Analysis (MD&A) covering critical accounting policies and use of estimates are already quite informative. However, to the extent that this and other financial reporting needs improvement, we would be happy to work with the Financial Accounting Standards Board, Securities and Exchange Commission (the "SEC"), and other parties as appropriate.

2. Requiring the auditor to evaluate other information will require additional audit procedures that are unnecessary in light of existing management certification requirements and it will also be challenging for auditors to develop and perform audit procedures on forward-looking information.

We note that the PCAOB has proposed that, in place of the current requirement for the auditor to read the other information and "consider" whether it is materially consistent with the audited financial statements, the auditor would now be required to read and "evaluate" the consistency of the information. Further, paragraph 4 of the Exposure Draft states in part, "The auditor should read the other information and, **based on relevant audit evidence obtained** and conclusions reached during the audit, **evaluate** the ..." (emphasis added).

Thus, it appears that the PCAOB is proposing a different standard of auditor involvement with other information, and additional auditing procedures would be necessary to satisfy this new standard. It is unclear what additional procedures would be required, but we are concerned that they could rise to the level of detailed comfort letter-type documentation and procedures.

We do not support changing the auditor's responsibility for other information that is associated with the financial statements, as there are robust procedures already in place to ensure that other information is materially consistent with the audited financial statements, such as CEO and CFO certifications of disclosures in the annual and quarterly reports, requirements for disclosure control processes, and independent audit committee oversight of the financial reporting process.

In addition, MD&A often includes forward-looking information which by definition may not always be objectively verifiable. Accordingly, we believe it will be challenging for auditors to evaluate and conclude on such forward-looking information. However, eliminating this information from MD&A would substantially reduce the usefulness of the quarterly and annual reports to investors; and carving this information out from the auditor's evaluation would prove extremely cumbersome.

3. The Proposal would be costly to implement with little incremental benefit.

The proposed requirements to disclose CAMs and auditor evaluation of other information could increase – perhaps significantly – the time needed by management, the Audit Committee, and the audit firms to determine how best to present all of this additional information in a way that will be clear and unambiguous to financial statement users. In addition, the Proposal would likely result in an increase in the amount of time required to issue audited financial statements, putting further pressure on meeting SEC reporting deadlines, and would likely lead to a commensurate increase in audit fees as well.

Because we do not see any substantial incremental benefit to users from the PCAOB's Proposal, as described above, coupled with the likely increase in time and costs, we do not believe the benefits of the Proposal outweigh its costs, and, therefore, we do not support its issuance.

Thank you for considering the comments provided in this letter. If you have any questions or are in need of any further information, please contact me at (212) 613-9883 (email: david.wagner@theclearinghouse.org) or Ryan Pozin at (212) 612-0135 (email: ryan.pozin@theclearinghouse.org)

Sincerely yours,



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