Via Email

July 27, 2016

Phoebe W. Brown
Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 034

Dear Madam Secretary:

The purpose of this letter is to provide you with the Council of Institutional Investors' ("CII" or "Council") comments in response to the Public Company Accounting Oversight Board's ("PCAOB" or "board") Proposed Auditing Standard entitled "The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards" ("reproposal").[1]

The Council is a non-profit nonpartisan association of public, corporate, and union pension funds, and other employee benefit plans, foundations and endowments with combined assets that exceed $3 trillion. Our member funds are major, long-term investors committed to protecting the retirement savings of millions of American workers. CII also has associate members, including asset managers with more than $20 trillion in assets under management.[2]

We thank the board for continuing to pursue one of the most important recommendations contained in the U.S. Department of Treasury's 2008 *Final Report of the Advisory Committee on the Auditing Profession* – "to consider improvements to the auditor's standard reporting model."[3] We strongly support most of the key provisions of the reproposal and offer several suggested modifications for your consideration.

[1] PCAOB Release No. 2016-003 (May 11, 2016), *available at* https://pcaobus.org/Rulemaking/Docket034/Release-2016-003-ARM.pdf.
[2] For more information about the Council of Institutional Investors ("CII"), please visit CII's website at http://www.cii.org/about_us.
[3] U.S. Department of the Treasury, Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury VII:13 (Oct. 6, 2008), *available at* http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf.

The views we express in this letter are generally consistent with those CII provided in letters to the PCAOB in 2011[4] and 2013.[5]

As the leading U.S. voice for effective corporate governance and strong shareholder rights, CII believes that accurate and reliable audited financial statements are critical to investors in making informed decisions, and vital to the overall well-being of our capital markets.[6] That strong belief is reflected in the following CII membership-approved policy on the "Independence of Accounting and Auditing Standard Setters":

> Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. The efficiency of global markets—and the well-being of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures. The quality, comparability and reliability of that information, in turn, depends directly on the quality of the . . . standards that . . . auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions.[7]

This policy establishes the principle that "investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs."[8] Our membership reaffirmed that principle in 2013 when it approved substantial revisions to our existing policy on "auditor independence."[9] That policy, as revised, includes the following provisions that we believe are relevant to issues raised by the reproposal:

> **2.13a Audit Committee Responsibilities Regarding Independent Auditors:** The audit committee should fully exercise its authority to hire, compensate, oversee and, if necessary, terminate the company's independent auditor. In doing so, the committee should take proactive steps to promote auditor independence and audit quality. Even in the absence of egregious reasons, the committee should consider

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[4] Letter from Jeff Mahoney, General Counsel, CII, to Office of Secretary, PCAOB (Sept. 19, 2011) [hereafter 2011 Letter], *available at* http://pcaobus.org/Rules/Rulemaking/Docket034/015_CII.pdf.

[5] Letter from Jeff Mahoney, General Counsel, CII, to Phoebe Brown, Office of Secretary, PCAOB (Dec. 16, 2013) [hereinafter 2013 Letter], *available at* http://www.cii.org/files/issues_and_advocacy/correspondence/2013/12_16_13_CII_letter_PCAOB_docket_034_proposed_auditing_standards.pdf & http://www.cii.org/files/issues_and_advocacy/correspondence/2013/12_16_13_ATTACHMENT_CII_letter_PCAOB_docket_no_034_proposed_auditing_standards.pdf.

[6] CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (adopted Oct. 7, 2008), *available at* http://www.cii.org/policies_other_issues#indep_acct_audit_standards.

[7] *Id.*

[8] *Id.*

[9] CII, Policies on Corporate Governance § 2.13 Auditor Independence (last updated Apr. 1, 2015), *available at* http://www.cii.org/corp_gov_policies.

> the appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to:
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> • the auditor's tenure as independent auditor of the company
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> ….
>
> • the clarity, utility and insights provided in the auditor's report
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> ….
>
> Investors are the "customers" and end users of financial statements and disclosures in the public capital markets. Both the audit committee and the auditor should recognize this principle.
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> ….
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> **2.13b Competitive Bids:** The audit committee should seek competitive bids for the external audit engagement at least every five years.
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> ….
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> **2.13f Shareowner Votes on the Board's Choice of Outside Auditor:** Audit Committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor.[10]

<u>Summary of CII Views on Reproposal</u>

Critical Audit Matters (CAMs)

We generally support the reproposed auditor reporting model that requires the independent auditor to communicate CAMs in the auditor's report. However, we would revise the reproposed model in several ways to better achieve the board's stated goal to making "the auditor's report more informative and relevant to investors and financial statement users."[11]

First, the definition of CAMs as interpreted in the reproposal is too narrow and unnecessarily excludes relevant information from investors. More specifically, we would not limit CAMs to any matter that "relates to accounts or disclosures that are *material* to the financial statements" as that phrase is interpreted in the reproposal.[12] We note that the reproposal provides an example indicating that the phrase would exclude from the definition of CAMs a "loss contingency that was communicated to the audit committee but that was determined by management to be remote."[13] We believe that such a narrow interpretation of the phrase would unnecessarily exclude relevant information from investors.

In addition, we would revise the reproposal's provisions on the determination of CAMs to clarify that in most audits, the auditor would determine that CAMs include those matters that involved significant accounting judgment or estimation by management. This revision would better ensure that CAMs include what we continue to believe is perhaps the most relevant information for investors.

[10] *Id.*
[11] PCAOB Release No. 2016-003 at 16.
[12] *Id*. at A1 – 7 (emphasis added).
[13] *Id.* at 20.

Finally, and for the same reasons, we would revise the reproposal's provisions on the communication of CAMs to clarify that in the auditor's report, when describing CAMs that involve significant accounting judgment or estimation by management, the auditor would be expected to include information about its findings. Such information should include the independent auditor's insights or assessments about whether management's significant accounting judgments or estimations were balanced, mildly optimistic, or mildly pessimistic, or equivalent language.

Other Proposed Changes to the Auditor's Report

We also generally support the reproposal's other improvements to the auditor's report. Specifically, we agree with the board that an "independence statement in the auditor's report could both enhance investors' and other financial statement users' understanding of the auditor's existing obligations to be independent, and serve as a reminder to auditors of these obligations."[14]

We also continue to believe that information on auditor tenure in the auditor's report would be useful to investors. We generally agree with the board that "requiring the disclosure of auditor tenure in the auditor's report would ensure that the disclosure is in a consistent location—the auditor's report—for all companies and would reduce search costs for investors . . . ."[15]

Finally, while we are generally supportive of promoting greater uniformity in the addressee of the auditor's report, we would revise the reproposed standard to limit the required addressees to the shareowners of corporations or equivalents for companies not organized as corporations. We believe this approach is more aligned with our policies and the underlying principle that investors are the key customers of the auditor's report.

A more detailed discussion of our views in response to select questions contained in the reproposal follows:

Questions:

1. **Is the definition of "critical audit matter" appropriate for purposes of achieving the Board's objective of providing relevant and useful information in the auditor's report for investors and other financial statement users? Is the definition sufficiently clear to enable auditors to apply it consistently? If not, describe why the definition may not be clear, including examples demonstrating your concern.**
   - **a. Are matters communicated or required to be communicated to the audit committee the appropriate source for critical audit matters? Why or why not?**
   - **b. Are there any audit committee communications that should be specifically excluded from consideration as a source of potential**

[14] *Id.* at 43-44.
[15] *Id.* at 49.

critical audit matters? If so, identify and explain the reason for the exclusion.

c. **Is the "relates to accounts or disclosures that are material to the statements" component of the definition of a critical audit matter appropriate and clear? Why or why not?**

d. **Is the "involved especially challenging, subjective, or complex auditor judgment" component of the definition of the critical audit matter appropriate and clear? Why or why not?[16]**

CII generally believes that the reproposed definition of CAMs would be *more appropriate* for purposes of achieving the board's stated objective of providing relevant and useful information in the auditor's report if the definition were revised to: (1) eliminate the clause that narrows critical audit matters to accounts and disclosures that are *material* to the financial statements;[17] and (2) add clarifying language to the definition's existing "Note" indicating that it is expected that in most audits, financial statement matters involving the application of significant judgment or estimation by management would involve especially challenging, subjective, or complex auditor judgment.[18]

We generally agree with the comments of Capital Strategy and Research Inc. that establishing a materiality requirement for CAMs creates "a serious deficiency in the proposal . . . [because] investors would only hear about critical audit matters after suffering large losses which is the current disclosure regime."[19] That concern is only heightened by the example contained in the reproposal indicating that "a loss contingency that was communicated to the audit committee, but that was determined to be remote and thus not to warrant disclosure under the applicable financial reporting framework, *would not* meet the definition of a critical audit matter even if it involved especially challenging auditor judgment."[20] In our view, if the remote determination by management involved significant judgment or estimation, the loss contingency should meet the definition of CAMs because the resulting account or disclosure (or lack thereof) would likely be viewed as material and relevant to investors.[21]

Finally, we note that the materiality consideration in the proposed definition of CAMs has not been adopted in the analogous Standards of the International Auditing and Assurance Standards Board or other jurisdictions that have adopted requirements for

[16] *Id.* at 28 (emphasis added).
[17] *Id.* at A1 – 7.
[18] *Id.* at A1 – 8.
[19] Letter from Elizabeth F. Mooney et al., Accounting Analyst, Capital Strategy Research, Inc., to Office of the Secretary, PCAOB 2 (June 24, 2016), *available at* https://pcaobus.org/Rulemaking/Docket034/03c_Capital.pdf.
[20] PCAOB Release No, 2016-003 at 20 (emphasis added).
[21] *See, e.g.*, Roll-Royce Holdings PLC, Annual Report 170 (2015) (disclosure in the independent auditor's report of a United Kingdom firm containing findings relating to "contingent liabilities in respect of financing and asset value support provided to customers"), *available at* www.rolls-royce.com/~/media/Files/R/Rolls-Royce/documents/investors/annual-reports/2015-annual-report-v1.pdf.

expanded auditor reports.[22] We believe this is one area where those international standards may provide investors more useful information.

In addition, we generally continue to believe that from an investor perspective, perhaps the most relevant and useful expanded audit report disclosure would provide the auditor's assessments or insights on management's significant accounting estimates and judgments,[23] including the auditor's findings as to whether management's significant accounting estimates and judgments were balanced, mildly optimist, or mildly pessimistic, or equivalent language.[24] We, believe, therefore, the reproposal should include clarifying language to the definition's existing "Note" indicating that it is expected, that in most audits, financial statement matters involving the application of significant judgment or estimation by management would involve especially challenging, subjective, or complex auditor judgment. In that regard, we share concerns raised by PCAOB Member Steven B. Harris that the "especially challenging, subjective, or complex auditor judgment" component of the definition of CAMs "grants [auditors] . . . too much discretion . . .''[25] We believe our proposed revision to the CAMs Note would assist in establishing a more objective floor for the determination of CAMs to better ensure that the information that is perhaps most relevant and useful to investors would be contained in the expanded auditor's report.

6. Do the reproposed communication requirements appropriately address commenter concerns regarding auditor communication of critical audit matters, such as:

a. The auditor providing original information in describing the principal considerations for the determination that the matter is a

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[22] *See* IAASB, The New Auditor's Report: A Comparison between the ISAs and the US PCAOB Reproposal 2 (May 2016) ("Some might believe that the inclusion of a materiality consideration in the definition of CAM may result in a narrower population of matters that may be a CAM under the PCAOB reproposal than under the IAASB's Standards or approaches in other jurisdictions."), *available at* https://www.ifac.org/publications-resources/new-auditor-s-report-comparison-between-isas-and-pcaob-reproposal (registration required to view the publication).

[23] *See, e.g.,* 2013 Letter, *supra* note 5, at 3 ("we would revise the proposed model to provide that the auditor is required to communicate, at a minimum, an assessment of management's critical accounting judgments and estimates based on the audit procedures the auditor performed").

[24] *See* Letter from Jeff Mahoney, General Counsel, CII, to Phoebe Brown, Office of Secretary, PCAOB 1 (Apr. 10, 2014) (Attachment) ("For management's significant accounting judgments, communication of those critical audit matters in the auditor's report also must describe the auditor's insight's on, and assessments of, management's significant accounting judgments and estimates, including the degree of aggressiveness or conservatism of those judgments and estimates, and whether the related reported amounts are, in the auditor's judgment, within a reasonable range.") [hereinafter 2014 Letter], *available at* http://www.cii.org/files/issues_and_advocacy/correspondence/2014/04_10_14_PCAOB_letter_Rulemaking_Docket_Matter_34.pdf; *see also* FRC, Extended Auditor's Reports, A Further Review of Experience 22-23 (Jan. 2016) (describing those auditor reports of United Kingdom companies "which included commentary on findings against key audit matters . . ."), *available at* https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Report-on-the-Second-Year-Experience-of-Extended-A.pdf.

[25] Steven B. Harris, Board Member, Statement on Reproposed Auditing Standard on Auditor's Report 4 (May 11, 2016), *available at* https://pcaobus.org/News/Speech/Pages/Harris-statement-ARM-051116.aspx.

critical audit matter or describing how the matter was addressed in the audit, and

b. Investors and other financial statement users misinterpreting critical audit matters as undermining the auditor's pass/fail opinion or providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate?

Are there other steps the Board could take to address these concerns? If so, what are they?[26]

CII generally believes that the reproposed communication requirements *inappropriately* respond to commenter concerns about the auditor providing "original information." As indicated, we believe that in order for the board to fully achieve its objective of providing relevant and useful information in the auditor's report for investors and other financial statement users, the communication should include the auditor's assessments or insights on management's significant accounting estimates and judgments, including the auditor's findings as to whether management's significant accounting estimates and judgments were balanced, mildly optimist, or mildly pessimistic, or equivalent language. That type of communication should not be limited by "original information;" a term that we understand is undefined in auditing literature.

Therefore, we would revise "Note 2" to the reproposal's provisions on communication of CAMs to clarify that among information "necessary to describe the principle considerations that led the auditor to determine that a matter is a critical audit matter or how the matter was addressed in the audit"[27] are the auditor's assessments or insights on management's significant accounting estimates and judgments.[28] We note that our view on this issue is generally consistent with recent findings of the United Kingdom ("UK") Financial Reporting Council that observed: "[i]nvestors feel that more could still be done to enhance [the expanded UK] auditor's reports, including . . . the auditor's view on the appropriateness of management estimates."[29]

We generally believe that the reproposed communication requirements does appropriately respond to commenter concerns about misinterpreting CAMs. We are unaware of any institutional investors that are likely to misinterpret CAMs. To the extent, however, that some preparers might be correct in their view that some other investors or other financial statement users might misinterpret CAMs, we generally support the reproposal's: (1) modification of the introductory language in the CAMs section of the

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[26] PCAOB Release No. 2016-003 at 38 (emphasis added).
[27] *Id.* at A1 – 9.
[28] *See* Michael Scanlon et al., Comment, Gibson Dunn Discusses PCAOB Issuance of Another Proposal to Change Audit Report, CLS Blue Sky Blog 3 (June 1, 2016) (indicating that the "exception" in Note 2 to the reproposed provisions on communication of critical audit matters could be interpreted broadly to "put the auditor in a position of having to make disclosures in the first instance"), *available at* http://clsbluesky.law.columbia.edu/2016/06/01/gibson-dunn-discusses-pcaob-issuance-of-another-proposal-to-change-audit-report/.
[29] FRC, Extended Auditor's Reports, A Further Review of Experience at 4.

auditor's report "to expressly state that the auditor is providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate;"[30] and (2) clarifying in a note "that the language used to communicate a CAM should not imply that the auditor is providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates."[31]

13. Is the reproposed requirement relating to auditor independence clear? Would this information improve investors' and other financial statement users' understanding of the auditor's independence responsibilities? Why or why not?[32]

Our members ascribe great weight to the independence of the external auditor, and CII agrees with the board that the reproposed "independence statement in the auditor's report could both enhance investors' and other financial statement users' understanding of the auditor's existing obligations to be independent, and serve as a reminder to auditors of these obligations."[33]

14. Is it appropriate to limit the required addressees to the shareholders and the board of directors, or equivalents for companies not organized as corporations? Are there other parties to whom the auditor's report should be required to be addressed, and if so, who are they?[34]

CII generally believes it would be appropriate to limit the required addressees to the shareowners,' or equivalents for companies not organized as corporations. It is our understanding that our proposed approach is generally consistent with the approach taken in the UK auditor's reports which "are typically addressed to either the members or other shareholders of the company."[35]

As we explained in our comment letter in response to the 2013 proposal:

> CII generally believes that the final auditor reporting standard should require that the auditor's report be addressed to investors in the company. We note that our membership approved corporate governance policies have long reflected the principle that "investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in [a] timely manner investors' information needs."[36]

[30] PCAOB Release No. 2016-003 at 29.
[31] *Id*. at 29-30.
[32] *Id*. at 44 (emphasis added).
[33] *Id.* at 43-44.
[34] *Id.* at 46 (emphasis added).
[35] *Id.*
[36] 2013 Letter, *supra* note 5, at 1 (Attachment).
[36] *Id.*

19. Would requiring disclosure of auditor tenure in the auditor's report reduce investor search costs? Why or why not? Should the Board require a specific location for disclosure of auditor tenure in the auditor's report? If so, where and why?[37]

CII generally believes that requiring disclosure of auditor tenure in the auditor's report would reduce investor search costs. We generally agree with the board that "[r]equiring the disclosure of auditor tenure in the auditor's report would ensure the disclosure is in a consistent location—the auditor's report—for all companies and would reduce search costs for investors and other financial statement users who are interested in this piece of information."[38] As explained in our comment letter in response to the 2013 proposal, "[s]ince the auditor's report 'is the primary means by which the auditor communicates to investors and other financial statement users,' it seems entirely appropriate to us that certain information about the auditor that investors and other financial statement users find particularly useful, including information about auditor tenure, should be disclosed in the auditor's report."[39]

Finally, we would not object to disclosure of auditor tenure on Form AP rather than in the auditor's report if the timeliness, accessibility, search ability, and overall functionality of the information disclosed on Form AP is at least equivalent to having the information disclosed in the auditor's report.[40]

27. How would investors use the information communicated in critical audit matters? Would the communication of critical audit matters help reduce information asymmetry between investors and management? Investors and the auditor?[41]

CII agrees with the board that "having the auditor provide investors and other financial statement users with additional information about especially challenging, subjective, or complex auditor judgments should help reduce the information asymmetry that exists between investors and management by providing a new perspective on the financial statements."[42]

We continue to believe that information asymmetry between investors and management, and investors and auditors, is more likely to be reduced if the information provides the independent auditor's assessments or insights on management's significant accounting

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[37] PCAOB Release No. 2016-003 at 51 (emphasis added).
[38] *Id.* at 49.
[39] 2013 Letter, *supra* note 5, at 3 (Attachment) (footnote omitted).
[40] Letter from Jeff Mahoney, General Counsel, CII, to Phoebe Brown, Office of Secretary, PCAOB 5-6 (July 30, 2015) (comparing disclosure of auditor name in auditor's report versus disclosure in Form AP), *available at* http://www.cii.org/files/issues_and_advocacy/correspondence/2015/July%2030,%202015%20comment%20letter%20to%20PCAOB.pdf.
[41] PCAOB Release No. 2016-003 at 97 (emphasis added).
[42] *Id.* at 64.

estimates and judgments, including the auditor's findings as to whether management's significant accounting estimates and judgments were balanced, mildly optimist, or mildly pessimistic, or equivalent language.[43]

We also agree with the board that "[r]eporting critical audit matters would add to the mix of information that could be used in investor capital allocation decisions."[44] The board's conclusion is consistent with our long-standing view that many investors would use the information communicated in an improved auditor's report to "analyz[e] and pric[e] risks and mak[e] informed investment decisions because . . . the auditor is an independent third party that could provide an unbiased view of the company's financial statements . . . ."[45]

We also agree with the board that an improved auditor's report could be used by investors to "engage management with targeted questions and support investors' decisions on ratification of the auditor."[46] We note that our membership-approved policies explicitly reference "insights provided in the auditor's report" as a factor that an audit committee should consider when evaluating whether to retain an external auditor.[47] Moreover, the basis for that policy indicates that our members may use the information contained in an improved auditor's report as an additional data point in which to: (1) oversee the audit committee and management, and (2) cast a more informed shareowner vote on proposals to ratify the selection of the external auditor.[48]

The potential relevance of such information for those, and other purposes, is illustrated in a current print advertisement by one of the large U.S. audit firms.[49] The ad touts the firm's view that an important component of the value of an audit is the auditor's "insight into your organization's financial condition and performance."[50] As a key customer and end user of the audited financial statements and related disclosures, we continue to believe that at least some of that value should be shared with investors through the auditor's report.[51]

31. Would the communication of critical audit matters enhance attention by auditors, audit committees, and management to the matters identified as critical audit matters? If not, why not? Would such

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[43] *See, e.g.*, 2014 Letter, *supra* note 24, at 1 (Attachment); *see also* FRC, Extended Auditor's Reports, A Further Review of Experience at 22-23.
[44] PCAOB Release No. 2016-003 at 65.
[45] 2011 Letter, *supra* 4, at 9 (Attachment).
[46] PCAOB Release No. 2016-003 at 71.
[47] 2.13a Audit Committee Responsibilities Regarding Independent Auditor's.
[48] 2011 Letter, *supra* note 4, at 10 (Attachment).
[49] J. Acct. 2 (July 2016) (on file with CII).
[50] *Id.*
[51] 2011 Letter, *supra* note 4, at 10 (citing multiple sources of support for the view that additional information from the auditor could "enhance the value of the audit to investors"); s*ee also* Office of the Investor Advocate, U.S. SEC, Report on Objectives, Fiscal Year 2017 at 13 (indicating that enhancements to the auditor's report "would be of major significance to investors"), *available at* https://www.sec.gov/advocate/reportspubs/annual-reports/sec-office-investor-advocate-report-on-objectives-fy2017.pdf.

changes enhance audit quality, improve management's disclosures, or otherwise be beneficial to investors? Why or why not?[52]

CII continues to believe that changes to enhance the auditor's report would improve both audit quality[53] and management disclosures to the benefit of investors.[54] On the latter point, we note that at least one prominent corporate law firm has opined that one implication of an anticipated final standard is that management should consider "revis[ing] or supplement[ing] its own disclosures, in light of the auditor's discussion, in order to ensure that the totality of the disclosure reflects an accurate and complete picture."[55]

41. Should the reproposed requirement regarding communication of critical audit matters be applicable for the audits of EGCs [emerging growth companies]? Should the other elements of the reproposed standard and amendments be applicable for the audits of EGCs? Should the reproposed requirements be modified to make their application to EGCs more appropriate? Would excluding audits of EGCs benefit or harm EGCs or their investors? Why or why not?[56]

CII generally continues to believe that excluding audits of EGC's from enhancements to the auditor's report *would not* benefit investors.[57] More specifically, we generally agree with the comments of those accounting firms that have argued "EGCs exhibit characteristics similar to other public companies and that financial statement users would benefit from similar auditor reporting requirements."[58]

Finally, we also find compelling the recent academic research cited by the board indicating that enhanced audit reporting may produce "greater benefits" for investor's in EGC's relative to the broader population of issuers.[59]

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[52] PCAOB Release No. 2016-003 at 97 (emphasis added).
[53] 2011 Letter, *supra* note 4, at 10 (Attachment) (citing 2011 CFA survey indicating some users of financial statements believe "additional information from the auditor could increase quality competition among audit firms").
[54] *Id.* at 9 (citing PCAOB staff outreach to investors indicating that the auditor could use the disclosure "'to leverage to effect change and enhance management disclosure in the financial statements, thus increasing transparency to investors.'").
[55] Sullivan & Cromwell LLP, Audit Reports, PCAOB Releases Reproposal of Amendments to Its Audit Report Standard 3-4 (May 25, 2016), *available at* https://www.sullcrom.com/siteFiles/Publications/SC_Publication_Audit_Reports_05_25_2016.pdf.
[56] PCAOB Release No. 2016-003 at 109 (emphasis added).
[57] 2013 Letter, *supra* note 5, at 3 (Attachment) ("We generally believe that the proposed standards and amendments, as improved by our comments, should be applicable to audits of all public companies, including emerging growth companies . . . .").
[58] *See* PCAOB Release No. 2016-003 at 107.
[59] *Id.* 107-08.

We appreciate the opportunity to provide the Council's investor-focused perspective on this important project. Please let me know you have any questions about the contents of this letter.

Sincerely,

Jeff Mahoney

Jeffrey P. Mahoney
General Counsel