

# American Federation of Labor and Congress of Industrial Organizations



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August 31, 2015

Sent via Electronic Mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

### ***Re: Rulemaking Docket Matter No. 029: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form***

Dear PCAOB Members:

On behalf of the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"), I appreciate the opportunity to comment on the Public Company Accounting Oversight Board ("PCAOB") supplemental request for comment on rules to require disclosure of certain audit participants on a new PCAOB form. The AFL-CIO strongly supports the efforts by the PCAOB to improve audit transparency by requiring disclosure of engagement partners and other participants in audits. The AFL-CIO has supported increased audit transparency since passage of the Sarbanes-Oxley Act of 2002, and we believe the time for enhanced disclosure is long overdue.

The AFL-CIO is the umbrella federation for U.S. labor unions, including 56 unions, representing 12.5 million union members. Union-sponsored and Taft-Hartley pension plans hold \$587 billion in assets. Union members also participate directly in the capital markets as individual investors and as participants in pension plans sponsored by corporate and public-sector employers. The retirement savings of America's working families depend, in part, on companies having reliably audited financial statements.

As a matter of principle, the best place for the engagement partner's name to appear is in a signature at the bottom of the audit report. Since passage of the Sarbanes-Oxley Act, CEOs and CFOs have been required to personally sign their financial statements. This certification requirement has bolstered investor confidence in

the accuracy of corporate accounting. A similar requirement for engagement partners to sign the audit report will enhance investor confidence in the quality of audits.

Many audit firms have objected that requiring engagement partners to personally sign or disclose their names in audit reports may result in enhanced legal liability under Section 11 of the Securities Act of 1933. However, from the standpoint of investors, imposing Section 11 liability on auditors for material omissions or misstatements is beneficial. Auditors may limit their Section 11 liability by conducting audits with appropriate due diligence, and this will create an incentive for improved audit quality.

While engagement partner signature of the audit report is preferable, disclosure of the identity of engagement partners in the proposed Form AP will provide many benefits for investors. Investors, who ultimately bear the costs and are the intended beneficiaries of audits, should have the right to know the identity of the engagement partners who conduct audits. Likewise, investors should be told the identities of any other accounting firms and non-accounting firm participants who took part in the audit.

Disclosure of the identity of engagement partners and other audit participants on Form AP will create reputational incentives to conduct high quality audits. With disclosure, investors will be able to examine the qualifications and experience of engagement partners and other audit participants. Knowing that investors have access to this information, audit committees will be less likely to approve of engagement partners and other audit participants who have a history of audit failures.

Finally, Form AP disclosure will enable investors to consider the reputation and qualifications of engagement partners and other participants in the audit when voting at annual shareholder meetings. Public companies routinely submit the selection of their independent auditor for ratification by shareholders. These proxy votes provide an important corporate governance mechanism for shareholders to improve accountability by expressing their views on the audit firm selected by audit committees.

Unfortunately, today's auditor ratification votes are largely symbolic because shareholders simply do not have sufficient information. For this reason, shareholders routinely vote in favor of auditors without conducting any meaningful analysis. According to data from Institutional Shareholder Services for more than 4,000 U.S. annual meetings held during the twelve month period ending June 30, 2015, auditor ratification proposals received on average the support of 98.7 percent of the votes cast.

Providing more information to shareholders about the participants in the audit, starting with the name of the engagement partner, will help make auditor ratification votes more meaningful. This enhanced transparency will not necessarily lead to failed advisory votes. Rather, shareholder scrutiny will result in improved audits in the same

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way that advisory votes on executive compensation (i.e., "say-on-pay" votes) have resulted in significant improvements to the executive compensation process.

For the purpose of proxy voting, it makes little difference whether the identity of the engagement partner and other participants in the audit is disclosed in Form AP verses the auditor report. What is important is that the information on audit participants is made publicly available. With disclosure, proxy voting advisory services are likely to begin collecting the information as a research service for their clients. The PCAOB should facilitate the dissemination this data in a downloadable format.

Thank you for the opportunity to comment on the PCAOB's proposed rules to require disclosure of certain audit participants on a new PCAOB form. Investors will benefit from enhanced audit participant transparency. If I can provide any additional information on the AFL-CIO's views, please contact me at 202-637-5152.

Sincerely,

A handwritten signature in black ink, appearing to read 'B. J. Rees', written in a cursive style.

Brandon J. Rees  
Deputy Director  
AFL-CIO Office of Investment

BJR/sdw  
opeiu #2, afl-cio