



Via Email

August 15, 2014

Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: Improving the Transparency of Audits: Proposing Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit (PCAOB Rulemaking Docket Matter No. 029)¹

Dear Madam Secretary:

The purpose of this letter is to express our surprise and disappointment in the report earlier this week in *The New York Times* that the Public Company Accounting Oversight Board ("Board") has decided to dramatically weaken the above referenced proposed amendments by issuing a final standard providing that "[a]udit partners will not be required to sign the statements, but can if they want to."²

As you are aware, the Council of Institutional Investors ("Council") is a nonprofit association of employee benefit plans, foundations and endowments with combined assets under management exceeding \$3 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of American workers.³

¹ PCAOB Release No. 2013-009 (Dec. 4, 2013), available at <http://pcaobus.org/Rules/Rulemaking/Docket029/PCAOB%20Release%20No%20%202013-009%20-%20Transparency.pdf>.

² Jesse Eisinger, *DealBook, Once Powerful, Mary Jo White's S.E.C. Is Seen as Sluggish and Ineffective*, N.Y. Times, Aug.13, 2014, available at <http://dealbook.nytimes.com/author/jesse-eisinger/>.

³ For more information about the Council of Institutional Investors (Council) and our members, please visit the Council's website at http://www.cii.org/about_us.

As we have indicated in several prior letters to the Board on this topic, the Council strongly supports *requiring* disclosure in the auditor's report of the name of the engagement partner.⁴ Our support is based on the Council's membership-approved policies.⁵ Those policies indicate that information about engagement partners' track record compiled as the result of requiring disclosure of the partner's name in the auditor's report would be relevant to our members as long-term shareowners in overseeing audit committees and determining how to cast votes on the more than two thousand proposals that are presented annually to shareowners on whether to ratify the board's choice of outside auditor.⁶

As we have also indicated in prior letters, we believe that the Council's position in favor of requiring disclosure in the auditor's report of the name of the engagement partner is generally supported by, among other sources, the recommendations and conclusions of the U.S. Department of Treasury's Advisory Committee on the Auditing Profession,⁷ the growing body of empirical research indicating that the requirement would enhance investor protection and provide useful information to investors,⁸ and the more than eight years of experience with a similar requirement in the European Union.⁹

⁴ See, e.g., Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors to Phoebe W. Brown, Office of the Secretary, Public Company Accounting Oversight Board 3 n.9 (Mar. 17, 2014), http://www.cii.org/files/issues_and_advocacy/correspondence/2014/03_17_14_CII_letter_to_PCAOB_improving_audits.pdf.

⁵ Council of Institutional Investors, Corporate Governance Policies § 2.13 Auditor Independence (updated May 9, 2014), available at http://www.cii.org/files/ciicorporategovernancepolicies/07_08_14_corp_gov_policies.pdf.

⁶ *Id.* (Indicating that one factor that audit committees and shareowners should consider in evaluating the independent auditor is "the track record of the lead partners and the extent of their professional commitments, as provided upon request or observable through disclosure or signature of the lead partners on the auditor's report.").

⁷ U.S. Department of the Treasury's Advisory Committee on the Auditing Profession, *Final Report of the Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* VII:19-20 (Oct. 6, 2008), available at <http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf>.

⁸ See Letter from Auditing Standards Committee, Auditing Section—American Accounting Association, to Office of Secretary, Public Company Accounting Oversight Board 2 (Jan. 9, 2012) ("disclosure of the engagement partner's name in the audit report would enhance investor protection . . . [and] investors may find this information useful"), available at http://pcaobus.org/Rules/Rulemaking/Docket029/024b_AAA.pdf; see also Joseph V. Carcello & Chan Li, *Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom*, 88 *Acct. Rev.* 1511, 1515 (2013) ("Our results are consistent with the argument that requiring an individual audit partner to sign a report improves audit quality by increasing the partner's accountability and transparency of audit reporting."), available at <http://aaajournals.org/doi/abs/10.2308/accr-50450>.

⁹ PCAOB Release No. 2013-009 at A3-5 & A3-6 n.12.

As described in a prior letter, one recent example of the potential benefits of requiring disclosure in the auditor's report of the name of the engagement partner was the case of former KPMG LLP ("KPMG") partner Scott London.¹⁰ In the midst of the 2013 proxy season, it was publicly reported that Mr. London was separated from KPMG for his involvement in providing non-public client information to a third party in exchange for cash.¹¹ While investors and the general public learned within one day that Mr. London was the engagement partner on Herbalife and Skechers USA, weeks later Michael Andrew, then Chairman of KPMG, indicated that he was "prevented by confidentiality agreements from revealing *what other companies' audits were led by Mr. London.*"¹²

Requiring disclosure in the auditor's report of the name of the engagement partner would, in our view, facilitate the ability of shareowners to obtain useful information about the track record of lead audit partners—information that many investors demand and deserve to know.

Thank you for considering our comments on this important issue. Should you have any questions or require any additional information about the Council's views on this matter, please feel free to contact me at 202.261.7081 or jeff@cii.org.

Sincerely,



Jeff Mahoney
General Counsel

¹⁰ Letter from Jeff Mahoney, General Counsel, Council of Institutional Investors, to Office of the Secretary, PCAOB 2-3 (May 23, 2013), http://www.cii.org/files/issues_and_advocacy/correspondence/2013/05_23_13_letter_to_PCAOB_on_improving_transparency.pdf.

¹¹ Peter Lattman & Michael J. De La Merced, *DealBook*, *KPMG Cancels Audits Over Insider Trading Inquiry*, N.Y. Times, Apr. 9, 2013, at 1-5, available at <http://dealbook.nytimes.com/2013/04/09/kpmg-said-to-resign-as-herbalifes-auditor-over-investigation/>.

¹² Patti Waldmeir & Kara Scannell, *KPMG Chief Dismisses 'One-Day Wonder' Scandal*, Fin. Times, Apr. 23, 2013, at 1 (emphasis added), available at <http://www.ft.com/cms/s/0/cdbae386-abfa-11e2-9e7f-00144feabdc0.html#axzz3AUUF6Lkl>.