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August 15, 2016

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

Via email: comments@pcaobus.org

Re: PCAOB Release No. 2016-003: Proposed auditing standard - *The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards*. PCAOB Rulemaking Docket Matter No. 34

Dear Board Members:

State Street Corporation ("State Street") appreciates the opportunity to comment on the Public Company Oversight Board's ("PCAOB" or "Board") reproposal of the auditing standard, *The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards (the "Reproposed Standard")*. With $28 trillion in assets under custody and administration, and $2 trillion in assets under management as of June 30, 2016, State Street is a leader in providing financial services and products to meet the needs of institutional investors worldwide.

We support the efforts to improve audit quality and auditor communication to enhance stakeholder confidence and applaud the Board's attempt to incorporate feedback on the original proposal by including the consideration of materiality in the identification of a critical audit matter ("CAM") and attempting to limit the auditor's ability to disclose original information. However, we have a number of concerns regarding the Reproposed Standard that we believe should be addressed in order to achieve the proper balance of ensuring that additional information in the form of auditor communications is relevant to the users of financial statements and does not overshadow information provided by management.

State Street believes that the current auditor's report ("pass/fail model") clearly communicates the nature of the audit and whether the financial statements are presented fairly, in all material respects, in accordance with GAAP. The concept of clarification of the standard auditor's report would further lengthen the auditor's report unnecessarily and create redundancies with management disclosures without achieving the objective of enhancing communication between auditors and the users of audit reports, thereby compromising the report's effectiveness.

We are concerned that the Board's proposal to add CAMs to the audit report may inappropriately suggest a weakness in financial statement reporting process, including management's competence or the effectiveness of the control environment. Requiring auditors to provide information on the company's financial reporting process could compel independent auditors to consistently hold (or "assume") the most conservative view on matters of accounting judgment, resulting in excessive CAMs being included in the auditor's report. As this subjective exercise of caution will vary between auditing firms and audit teams, comparability of audit reports among different issuers likely will be adversely affected, potentially augmenting the risk of inappropriately perceived weakness in financial statement reporting process for some issuers and compromising the report's main message. Limiting the source of potential CAMs to matters communicated or required to be communicated to the audit committee does not address this concern.

State Street believes that auditors should not be the original source of disclosure specifically related to management judgments and estimates, or accounting policies and practices, including areas of significant judgment. The auditor's role is to evaluate whether the financial statements taken as a whole are presented fairly in accordance with generally accepted accounting principles (GAAP). Providing information to investors with respect to our accounting policies and their application is the responsibility of State Street's management, not the independent auditor. Sophisticated stakeholders are aware that information that would be disclosed as CAMs by the auditor is already included in disclosures made by management (e.g., "Significant Accounting Policies" and financial statement footnote disclosures). Requiring the auditors to disclose this information would unnecessarily convolute the financial statements, as stakeholders would need to sort through information provided by both management and the independent auditors. The auditor's responsibility to communicate such matters should be limited to situations in which the financial statements are not in conformity with GAAP in all material respects.

The Reproposed Standard requires the independent auditors to summarize to investors the same level of detail and context that is provided to a company's Board of Directors, the independent elected body representing stakeholders. Although the auditor is not expected to provide information about the company that has not been made publicly available by the company, such information may be provided by the auditor if necessary to describe the principal considerations used to determine that a matter is a CAM or how the CAM was addressed in the audit (e.g., information regarding information technology controls, or other information not currently required by GAAP or typically included in the financial statements). In the absence of appropriate context and two-way communication, we believe that such information potentially would be misleading, incomplete, and would not enhance the overall understanding of the readers of the auditor's report and financial statements. Additionally, we note that requiring supplemental reporting, such as the proposed CAMs, will likely lengthen the time to complete the audit, as there may not be sufficient time for the auditor to complete the audit of the financial statements while also providing assurance on the incremental areas identified in the Reproposed Standard, and therefore adversely influence filing timelines for large accelerated filers. Furthermore, while the introduction of a materiality component within the definition of CAM is an important improvement of the Reproposed Standard, it does not address our concerns above as it continues to require a dependency on auditor judgment, leaving the possibility for different materiality thresholds used by management for financial statement reporting and auditors for CAM reporting. Moreover, given that matters that are material to the financial statements should already be disclosed by management in the notes to the financial statements, management's discussion and analysis or both, we question how redundant disclosure in the auditor's report adds value.

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State Street does not object to the requirement to disclose auditor tenure in the auditor's report, but we believe it is not necessary because we reject the assumption that auditor tenure and audit quality are related.

We appreciate your consideration of these matters and welcome the opportunity to discuss them with you.

Sincerely,

Sean Newth

Sean P. Newth
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Chief Accounting Officer and Controller