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August 31, 2015

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

Re: PCAOB Rulemaking Docket Matter No. 029

My company, Muddy Waters, LLC, and I strongly urge the Board to adopt the proposed rule requiring auditors to file Form AP (the “AP Rule”). While the AP Rule represents the lowest level of the transparency proposals previously introduced by the Board, it will still have a positive effect by increasing the disclosure of currently hard to identify engagement partners and other auditors participating in an audit.

Muddy Waters has been deeply involved in exposing numerous stock frauds – particularly frauds from China. In my opinion, China is to stock fraud as Silicon Valley is to technology. Over the years, literally hundreds of Chinese frauds have listed in the U.S. Almost every single one of these frauds received at least one unqualified audit opinion from PCAOB registered firms – many of which were Big Four auditors. We strongly believe that the China fraud problem persists in the U.S. markets, but that the issuers have gotten better at avoiding detection. Because of the substantial difficulties of investigating and holding to account companies and persons in China, I believe Chinese companies listed in the U.S. are effectively beyond regulation. I similarly believe China’s refusal to allow PCAOB inspections and the provision of working papers to the SEC also effectively places China-based auditors beyond regulation. One way to mitigate these depressing and deleterious realities is through greater transparency, including into the individuals most responsible for issuing audit opinions and exposing other participants in the audit.

Identifying the engagement partner chips away at the false sense of security that auditors’ institutional brands give investors. Audits are after all carried out by people, who are fallible. Further, auditors are in a position that creates a conflict of interest, given that the issuers are the clients. Audit firms’ opposition to earlier proposals to publicly identify audit partners in the audit reports is unfortunate. The enhanced disclosure earlier proposed by the Board, on which I have commented, would have pressured the firms to elevate their audit standards. I believe the firms would have met this challenge, resulting in a win-win scenario for the firms and investors. By the same token, opposing enhanced public identification of engagement partners is, in my view, opposing improving audit quality.

Muddy Waters and I join those in the investor community who wish to see greater transparency and accountability in our markets. We believe the AP Rule is a positive step in the right direction.

Sincerely,
Carson C. Block, Esq.