

October 30, 2013

Public Company Accounting Oversight Board

**RE: Proposed Auditing Standards –**

***The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion***

***The Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor’s Report***

***Proposed Amendments to PCAOB Standards Related to the Proposed Auditor Reporting Standard***

Members of the Board:

BlackRock, Inc. (“BlackRock”) appreciates the opportunity to comment on *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, *The Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor’s Report*, and *Proposed Amendments to PCAOB Standards Related to the Proposed Auditor Reporting Standard* (together the “Proposed Standards”). BlackRock is a global investment manager, overseeing approximately \$4.1 trillion of assets under management at September 30, 2013. BlackRock and its subsidiaries manage approximately 3,400 investment vehicles, including registered investment companies, hedge funds, private equity funds, exchange-traded funds and collective investment trusts, in addition to separate accounts. Certain of BlackRock’s wholly-owned subsidiaries operate as U.S. registered broker/dealers, a U.K. registered life insurance company, a U.S. registered bank trust company and numerous investment advisory companies registered in jurisdictions throughout the world.

As an investment manager, BlackRock is in the position to provide commentary on the Proposed Standards from the perspectives of: a) a corporate preparer, b) an investment fund preparer and c) a user (i.e., BlackRock’s research analysts). For purposes of this response, our comments primarily reflect those of our analysts as users of both financial statements and auditors’ opinions.

## **Overview**

We applaud the Public Company Accounting Oversight Board (“PCAOB” or the “Board”) for undertaking this project, the goal of which is to enhance auditor communications and information useful to users of financial statements. Overall, we support the concept of communicating critical audit matters and believe that much of the framework proposed will result in useful information to users of financial statements. We wish to emphasize that certain entities, such as investment companies, have inherently less complex business models for which there may routinely be no critical audit matters. In order to avoid “boilerplate” language, we encourage the PCAOB to clarify that routine matters discussed

with boards of directors or audit committees and comprehensively disclosed in the financial statements may not require identification as a critical audit matter because, while they may require substantial audit effort, they do not require significant auditor judgment or give rise to significant audit issues.

We are concerned that some investors may misinterpret the communication of a critical audit matter as indicative of an issue with respect to the quality of the financial statements or as a qualification in the auditor's report (even though the proposed auditor's report would state that the opinion on the financial statements is not modified with respect to any of the critical audit matters described). We suggest that additional language be added to the critical audit matter section of the auditor's report to explain that critical audit matters are not necessarily indicative of a financial statement deficiency.

From a preparer's perspective, we believe there will be additional time and expense associated with interacting with and providing information to the auditors in connection with their required assessment and reporting of critical audit matters and their documentation of matters that are critical audit matters. We do not believe that the auditor should be required to document why all other possible critical audit matters were not included as critical audit matters in the auditor's report.

We continue to recommend that the description of critical audit matters in the auditor's report exclude audit procedures performed or an indication of the outcome of the auditor's procedures and significant auditor judgments. Such information may lead a user to believe that the auditor is expressing a "piecemeal" opinion on individual matters or accounts in the financial statements, and any audit procedures enumerated may be taken out of context or misunderstood given their necessarily abbreviated descriptions.

We support including a description in the auditor's report that clarifies the auditor's responsibility for other information in documents containing financial statements. We do not support changing the auditor's responsibility for other information to "evaluate" such information versus the current requirement to "consider" the information, which might imply detailed comfort letter type documentation and procedures. We also do not support an expansion of audit procedures to include other information beyond Management Discussion and Analysis ("MD&A") and other schedules containing financial information that is derived from or that supports the financial statements. We do not support an extension of audit procedures to other information incorporated by reference.

We encourage the PCAOB and the IAASB to work together to standardize, to the extent possible, the form and content of the auditor's report in order to increase comparability and ease of use for users who may be readers of reports subject to both sets of standards.

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The following comments primarily reflect those of our analysts are in response to certain questions set forth in the Proposed Standards.

- 4. The proposed auditor reporting standard would require the auditor to include a statement in the auditor's report relating to auditor independence. Would this statement provide useful information regarding the auditor's responsibilities to be independent? Why or why not?**

We rely on the auditor of the financial statements to determine their independence with professional standards, and the PCAOB to ensure that all auditors of public companies are registered with the PCAOB. We do not believe that the statement in the auditor's report relating to auditor independence provides any meaningful additional comfort.

- 5. The proposed auditor reporting standard would require the auditor to include in the auditor's report a statement containing the year the auditor began serving consecutively as the company's auditor. Would information regarding tenure in the auditor's report be useful to investors and other financial statement users? Why or why not?**

We do not object to inclusion in the auditor's report of the year in which the auditor began serving consecutively as the company's auditor, although it would be preferable to include such information in another public document, such as the proxy or elsewhere in a Form 10-K. It would be informative to know whether there has been a change in auditor. Such information may cause our analysts to inquire whether there were any disagreements with management as to accounting or financial statement disclosures, and may cause additional scrutiny, as new auditors may not have developed a comprehensive understanding of a new audit client, particularly when the client is complex and/or operates in multiple jurisdictions.

- 6. The proposed auditor reporting standard would require the auditor to describe the auditor's responsibilities for other information and the results of the evaluation of other information. Would the proposed description make the auditor's report more informative and useful? Why or why not?**

We support inclusion of a statement clarifying the auditor's responsibility for other information; however, we are concerned that the Proposed Standards could result in a significant expansion of audit procedures. The Proposed Standards would include within the definition of other information documents incorporated by reference, some of which may have been partially superseded (such as loan or lease agreements), as well as other non-financial information. The Proposed Standards would require such information be read and evaluated as to consistency of amounts, manner of presentation and qualitative statements, as well as require an evaluation of other information not directly related to the financial statements as compared to relevant audit evidence obtained during the audit. Such procedures are not routinely performed on documents incorporated by reference, contrary to page 21 of the Proposed Standards, which states that "the Board believes that, in practice, some auditors currently perform procedures related to other information similar to the procedures in the proposed other information standard."

We believe that the scope of procedures should be related solely to financial information included in the filing, such as MD&A and exhibits, and should not extend to documents incorporated by reference or other non-financial information. Furthermore, we recommend that the PCAOB clarify what audit procedures should be performed to identify information within the scope of other information, and the basis for concluding on the manner of presentation and qualitative statements.

- 7. Should the Board require a specific order for the presentation of the basic elements required in the auditor's report?**

We have no preference on the order of presentation. However, we encourage the PCAOB and the IAASB to work together to standardize, to the extent possible, the form and content of the auditor's report.

**10. Would the auditor's communication of critical audit matters be relevant and useful to investors and other financial statement users? If not, what other alternatives should the Board consider?**

We believe the auditor's communication of critical audit matters will be relevant to investors and other financial statement users by focusing their attention on issues that would be pertinent to understanding the financial statements. As users of financial statements, we find value in identifying critical audit matters, particularly matters resulting from changes in principles or areas that involve significant judgment, which therefore may require further analysis and discussion with management in order to be properly understood and reflected in analyst models.

We are concerned, however, that such matters may become recurring disclosures of routine matters with "boilerplate" language, since companies in similar industries will presumably have the same critical audit matters (e.g., loan loss reserves for a bank). We suggest such routine matters be limited to a brief description of the critical audit matters, why the auditor considered them to be significant, and a reference to their location in the financial statements and/or footnotes.

**15. Would including the audit procedures performed, including resolution of the critical audit matter, in the communication of critical audit matters in the auditor's report be informative and useful? Why or why not?**

Inclusion of the audit procedures performed, including resolution of the critical audit matters, in the report would not provide information that would facilitate an understanding of the financial statements. In order for the auditor to convey the context around such matters, it may be necessary to include expansive details that could overwhelm the auditor's report. Additionally, inclusion of information about the results of audit procedures may lead a user to believe that the auditor is expressing a "piecemeal" opinion on individual matters or accounts in the financial statements. Furthermore, we are concerned that it may be difficult to succinctly convey the nature of audit procedures in a manner that provides the user with an understanding of the full scope of those procedures, and the quantitative and qualitative factors considered in reaching their decision.

We recommend that the Board clarify that highlighting audit procedures should be infrequent; however, if they are included, only the most significant procedures should be identified and then only when they are important to understanding why a matter was identified as a critical audit matter. Paragraph 11.b. does not seem to refer to disclosure of audit procedures, while the illustrative examples include such procedures. Additional guidance should be provided if the Board ultimately elects to retain the option for auditors to communicate the results of specific audit procedures.

**21. What are the additional costs, including indirect costs, or other considerations related to the auditor's determination, communication, and documentation of**

**critical audit matters that the Board should take into account? Are these costs or other considerations the same for all types of audits?**

We do not believe that there would be material additional costs for communication of critical audit matters as these matters already should be reviewed by the engagement quality reviewer and communicated to the board or audit committee. However, we believe there will be additional time and expense associated with a comprehensive assessment of all matters (including internal control significant deficiencies), and the determination and documentation of whether those matters are critical audit matters based on the criteria in paragraph 9 of Appendix 1. For example, we would expect that significant (but not material) control deficiencies and changes in the auditor's risk assessments will entail more comprehensive assessment and documentation than currently performed as to why they were, or were not, a critical audit matter.

**24. Are there specific circumstances in which the auditor should be required to communicate critical audit matters for each period presented, such as in an initial public offering or in a situation involving the issuance of an auditor's report on a prior period financial statement because the previously issued auditor's report could no longer be relied upon?**

We are supportive of limiting critical audit matters to only the most recent financial statement period. Critical audit matters related to prior periods should be communicated in the auditor's report if they were not previously communicated in a public filing (e.g., an initial public offering containing audited financial statements for multiple periods) or if prior period financial statements have been re-audited because the previously issued auditor's report could no longer be relied upon.

**27. What benefits or unintended consequences would be associated with requiring auditors to communicate critical audit matters that could result in disclosing information that otherwise would not have required disclosure under existing auditor and financial reporting standards, such as the examples in this Appendix, possible illegal acts, or resolved disagreements with management? Are there other examples of such matters? If there are unintended consequences, what changes could the Board make to overcome them?**

In substantially all situations where an auditor would disclose information not contained in the financial statements, we believe it is likely that management would elect to disclose such information in the financial statements rather than having it summarized by the auditor in the auditor's opinion (in effect, resulting in an auditor disclosing management information). However, for those situations where management may elect to not make such disclosure, such as situations involving auditor judgments (e.g., disclosure of significant control weaknesses that did not rise to the level of a material weakness or auditor consideration of going concern status), we recommend that the PCAOB provide additional factors that should be considered by the auditor prior to making such disclosure. Those factors to be considered could include whether deficiencies and uncertainties were remediated prior to issuance of the auditor's report and whether the disclosure would result in making confidential information public or disclosing information that could result in a competitive disadvantage to the company. If such disclosure could result in making confidential information public or in a competitive disadvantage to the company, it would be

appropriate to consider whether such disclosure is necessary in light of the overall financial statement presentation.

**38. Are the proposed auditor reporting standard and amendments appropriate for audits of investment companies? If yes, are there any considerations that the Board should take into account with respect to auditors' reports on affiliated investment companies, as well as companies that are part of master-feeder or fund of funds structures?**

It is generally agreed that investment companies are inherently less complex than operating companies. Most registered investment companies file under the Investment Company Act of 1940 and the Securities Act of 1933, although a small number of closed-end funds file under the Securities Exchange Act of 1934 (to which the Proposed Standards, including the evaluation of other information, would be applicable). Investments generally comprise substantially all of an investment company's assets and net equity, and its income is derived from realized and unrealized gains on these investments. Expenses are primarily comprised of formulaic contractual obligations to third parties (e.g., the investment advisor, custodian, transfer agent and professional service providers). As a result, it is likely that only fair valuation of investments would be deemed a critical audit matter.

Investment companies include extensive disclosure in their offering memorandums/prospectuses and footnotes as to the methodology of fair valuation and they disclose fair value information pursuant to ASC 820, *Fair Value Measurements and Disclosures*. Given these disclosures, we recommend clarifying that routine audit procedures, such as testing Level 1 or 2 fair valuation inputs or verifying the existence of investments, would not be deemed critical audit matters unless there were significant required estimates or judgments therewith. Accordingly, there should be a rebuttable presumption that the auditor's report on most investment companies would state that there are no critical audit matters to communicate.

**40. Should audits of certain companies be exempted from being required to communicate critical audit matters in the auditor's report? Why or why not?**

We do not believe any companies otherwise covered by the Proposed Standards should be universally exempt from the requirement to communicate critical audit matters. Both the auditor and financial statement preparer would benefit by focusing the auditor on critical audit matters during the planning and execution phases of the audit. Exclusion of certain companies would negate this benefit.

### **Additional Discussion Questions**

**1. Is the scope of the proposed other information standard clear and appropriate? Why or why not? Are there Exchange Act documents, other than annual reports, that the Board should consider including in the scope of the proposed other information standard?**

The scope of the proposed other information standard should be limited to MD&A and other exhibits containing financial information that is derived from or that supports the financial statements (e.g., ratio of earnings to fixed charges). The auditor's opinion should specifically identify the other information for which the

auditor performed an evaluation for material inconsistencies or material misstatements.

**2. Is it appropriate to apply the proposed other information standard to information incorporated by reference? Why or why not?**

The proposed other information standard should not be extended to information incorporated by reference. Performing additional procedures on this information would be of limited value, as the documents may include partially outdated or superseded agreements, documents containing minimal financial information, and lengthy documents for which the cost of having auditors perform, evaluate and document procedures would be prohibitive (e.g., stock award and incentive plans, share agreements, historical merger and acquisition agreements, loan and borrowing agreements, lease agreements).

**6. Is it appropriate to require the auditor to evaluate the other information for both a material inconsistency and for a material misstatement of fact? If not, why not?**

If the procedures to be performed are only with respect to MD&A and other exhibits containing financial information that is derived from or that supports the financial statements, then the “material inconsistency” and “material misstatement of fact” criteria are appropriate. However, if the procedures are applied to other non-financial information, these criteria may require significant judgment given the complexity of many corporate agreements. The costs associated with such procedures (including preparation of related audit documentation) would not justify the benefit received.

**7. Would the evaluation of the other information increase the quality of information available to investors and other financial statement users and sufficiently contribute to greater confidence in the other information? If not, what additional procedures should the Board consider?**

Many analysts and users of financial statements already assume that MD&A and exhibits are read by the auditors for consistency with the financial statements. Accordingly, reporting on those procedures performed would clarify the auditor’s role and responsibility. We do not believe that additional procedures are necessary.

**15. Is it appropriate for the auditor to issue an auditor’s report that states that the auditor has identified in the other information a material inconsistency, a material misstatement of fact, or both, that has not been appropriately revised and describes the material inconsistency, the material misstatement of fact, or both? Under what circumstances would such a report be appropriate or not appropriate?**

It would be appropriate for the auditor to indicate in the audit report a material inconsistency or a material misstatement of fact in MD&A and/or exhibits containing financial information that is derived from or supports the financial statements. If the Proposed Standards are extended to other information incorporated by reference, the same standard should apply. However, as noted above, we do not support such an extension.

**19. Should the Board consider permitting or requiring the auditor to identify in the auditor's report information not directly related to the financial statements for which the auditor did not have relevant audit evidence to evaluate against? If so, provide examples.**

We do not support a further extension of the auditor's procedures to information not directly related to the financial statements.

**20. What additional costs would the auditor or the company incur related to auditor reporting when the auditor identifies a material inconsistency, a material misstatement of fact, or both?**

We would expect that the auditor and the company would both incur minimal additional costs related to the reporting of a material inconsistency or material misstatement of fact. Absent a disagreement of fact, such matters would be discussed and corrective action taken by management to correct the inconsistency or misstatement.

**21. Would the proposed reporting, including the illustrative language, provide investors and other financial statement users with an appropriate understanding of the auditor's responsibilities for, and the results of, the auditor's evaluation of the other information? Why or why not?**

As noted above in question 1, the auditor's report should specifically identify the other information for which the auditor performed an evaluation for material inconsistencies or material misstatements. If this identification is made, the proposed reporting would provide users with an appropriate understanding of the auditor's responsibilities for, and results of, their evaluation.

**31. Should the Board extend the application of the proposed other information standard to documents containing audited financial statements and the related auditor's report that are filed under the Securities Act? If so, are there obstacles other than those previously mentioned that the Board should consider before such a proposal is made? If not, why not?**

We encourage the Board to defer extension of the application of the proposed other information standard to documents filed under the Securities Act until an evaluation can be made of the results from implementing the current Proposed Standards.

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We appreciate the opportunity to share our viewpoints on the Proposed Standards. If the Public Company Accounting Oversight Board has any questions regarding our comments, please contact Steven Buller at (212) 810-3501.

Sincerely,

Steven E. Buller  
Managing Director