



CENTER FOR CAPITAL MARKETS
C O M P E T I T I V E N E S S

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September 28, 2015

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Concept Release on *Audit Quality Indicators* (PCAOB Release No. 2015-005, July 1, 2015; PCAOB Rulemaking Docket Matter No. 041)

Dear Ms. Brown:

The U.S. Chamber of Commerce (the “Chamber”) is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. The CCMC believes that businesses must have a strong system of internal controls and recognizes the vital role external audits play in capital formation.

The CCMC supports efforts to improve audit effectiveness and appreciates the opportunity to comment on the Public Company Accounting Oversight Board (“PCAOB”) Concept Release on *Audit Quality Indicators* (“Concept Release”). The CCMC believes that the efforts undertaken by the Center for Audit Quality (“CAQ”) and the audit firms have been an important step forward in developing systems to fit the needs of investors and the businesses they invest in. We wish to commend the efforts of the PCAOB, CAQ, audit firms, and others in driving this process forward.

The 2008 Final Report of the U.S. Department of the Treasury Advisory Committee on the Auditing Profession (“ACAP”) included a recommendation that the PCAOB, in consultation with other parties, “determine the feasibility of

developing key indicators of audit quality and effectiveness and requiring auditing firms to publicly disclose these indicators.”¹ The Concept Release discusses a portfolio of 28 potential quantitative measures that may provide new insights about how to evaluate the quality of audits and requests comment on the content and possible uses of these measures. We applaud the PCAOB for considering this ACAP recommendation and promoting the dialogue on audit quality indicators (“AQIs”) in the process.

In furtherance of this initiative, the CAQ has developed a set of potential AQI’s to enhance discussions between auditors and audit committees, as well as assist audit committees in fulfilling their oversight responsibilities. The CAQ also pilot tested these potential AQI’s and solicited feedback to assess their overall usefulness to audit committees. Pilot testing has informed the thinking of both auditors and audit committees about AQI’s. Discussions continue and are expanding beyond the initial set of companies. Relatedly, audit committee practices on assessing audit quality, communicating with auditors, and reporting on the audit committee’s oversight activities also continue to evolve.²

We believe that this is an example of how evidentiary exploration can help inform systems that are conducive to efficient capital markets.

In addition to the CAQ initiative, some audit firms are developing AQI’s and beginning to utilize them internally to assess their usefulness as a tool in managing and monitoring audit quality. There are also instances of audit firms including quantitative performance metrics, akin to AQI’s, in their annual transparency reports.

Much has been learned from these voluntary activities. For example, one size *does not* and *cannot* fit all. There is neither a single set of AQI’s nor a specific computation for any individual AQI that can usefully apply across all uses or users. Flexibility is needed in choice and computation, including level of computation, to tailor AQI’s to the facts and circumstances of the particular application and use. In

¹ See Concept Release, page 4.

² In this regard, the Securities and Exchange Commission (“SEC”) recently issued a Concept Release on *Possible Revisions to Audit Committee Disclosures* (File No. S7-13-15) that focused on the audit committee’s reporting with respect to its oversight of the independent auditor, including how the audit committee assesses audit quality in selecting or retaining the audit firm and determining the qualifications of the audit firm and certain members of the engagement team.

addition, context matters, AQI's cannot "stand-alone" without explanation and discussion.

The Concept Release groups the 28 potential AQI's into three categories related to audit professionals, audit process, and audit results. The latter includes financial statements (e.g., restatements), internal control (e.g., timely reporting of material weaknesses in internal control over financial reporting ("ICFR")), going concern (i.e., timely reporting of going concern issues), communications between auditors and audit committees (e.g., independent surveys of audit committee members), and regulatory enforcement and litigation.

The CCMC notes that, based on the PCAOB's outreach activities including discussions by the PCAOB's Standing Advisory Group ("SAG") and Investor Advisory Group ("IAG"), investors tend to be primarily interested in measures of audit results. In this regard, much information is already publicly available, although it varies in timeliness and usefulness for discussing audit quality and likewise requires context.³

Given the progress that has been made on developing, implementing, and assessing AQI's and the information on AQI's already publicly available, it would be premature for the PCAOB to proceed with rulemaking to mandate any particular set of AQI's for any particular purpose. Instead, it is important for the PCAOB to encourage and monitor these voluntary activities and allow them to evolve and innovations to occur.

Thus, the CCMC strongly recommends that the PCAOB develop a collaborative process to work with the accounting firms, issuers, and organizations, such as the CAQ, in furtherance of the AQI initiative. This collaborative process

³ For example, on timely reporting of going concern issues, the Concept Release proposes a metric based on "the number and percentage of audit reports with no going concern reference in the year preceding an engagement client's financial distress, e.g., bankruptcy, troubled debt restructuring, troubled buyout, or bailout" (page A-23). In addition to the challenges in computing such a measure, the CCMC questions the usefulness of it as an AQI. The Financial Accounting Standards Board ("FASB") has recently promulgated new disclosure requirements related to going concern under generally accepted accounting principles ("GAAP") and the SEC likewise has disclosure requirements in Management Discussion and Analysis ("MD&A") related to liquidity and financial condition. In focusing solely on the issuance of audit reports modified for going concern, the PCAOB's proposed metric fails to recognize and appreciate the important role of these other disclosures.

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should focus on AQI-type information that can usefully help PCAOB registered accounting firms manage their audit practices, inform the PCAOB inspection process, and facilitate meaningful dialogue on and consideration of audit quality by audit committees. The PCAOB should also help educate investors, for example through SAG and IAG, on AQI-related information that is publicly available and the usefulness and limitations of such information, including for forward-looking considerations of audit quality. Similarly, the CCMC believes that a dialogue between the PCAOB, chief financial officers, and audit committees will assist in developing systems appropriate for the needs of all stakeholders.

Lastly, although the CCMC does not support mandating the computation or disclosure of AQI's, the CCMC would nonetheless like to emphasize the importance of liability neutrality as a minimum threshold for any rulemaking. Further, the CCMC has emphasized the importance of the PCAOB conducting substantive and robust economic analysis and the precondition of liability neutrality should also be part of such economic analysis.

In conclusion, the CCMC appreciates the opportunity to comment on the Concept Release. The CCMC believes that this is a worthwhile effort and commends the efforts of the PCAOB and other stakeholders to develop systems to help inform investors, audit committees and management about audit quality. While we have concerns regarding mandated disclosure and the potential of one size fits all systems, we believe that the participation of various stakeholders and the use of evidentiary tools can assist in these efforts and provide the basis for information flows necessary for efficient capital markets.

Thank you for your consideration and the CCMC stands ready to assist in these efforts.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Quaadman', with a long, sweeping underline.

Tom Quaadman