



MUTUAL FUND DIRECTORS FORUM

The FORUM for FUND INDEPENDENT DIRECTORS

September 29, 2015

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006

PCAOB Rulemaking Docket Matter No. 041

Dear PCAOB Board Members:

The Mutual Fund Directors Forum (“the Forum”)¹ welcomes the opportunity to comment on the Concept Release on Audit Quality Indicators, PCAOB Release No. 2015-005 (July 1, 2015) (“Release”).

The Forum, an independent, non-profit organization for investment company independent directors, is dedicated to improving mutual fund governance by promoting the development of concerned and well-informed independent directors. Through continuing education and other services, the Forum provides its members with opportunities to share ideas, experiences, and information concerning critical issues facing investment company independent directors and also serves as an independent vehicle through which Forum members can express their views on matters of concern. As fiduciaries charged with protecting the interests of mutual fund shareholders, we are deeply interested in fund disclosure.

I. Introduction

The PCAOB’s Audit Quality Indicators (“AQI”) project focuses on audits of public companies, whose shareholders are asked to ratify the selection of their companies’ respective auditors.² The goal of the project is to “improve the ability of persons to evaluate the quality of audits in which they are involved or on which they rely.”³ The PCAOB seeks to accomplish this goal by exploring use of AQI, which are quantitative measures that “may provide new insights about how to evaluate the quality of audits and how high quality audits are achieved.”⁴ The PCAOB anticipates that publication of comparative information may “help investors become better able to evaluate the audit quality associated with particular financial statements.”⁵

While we agree that high quality audits are vitally important to shareholders, we do not believe that the AQI factors will be of assistance to shareholders in evaluating audits of investment companies that file under the Investment Company Act of 1940 and the Securities Act of 1933 (“RICs”). The role of auditors of RICs, including their relationship with the RICs they audit, is substantively different than is the case with traditional operating companies.

¹ The Forum’s current membership includes over 887 independent directors, representing 122 mutual fund groups. Each member group selects a representative to serve on the Forum’s Steering Committee. This comment letter has been reviewed by the Steering Committee and approved by the Forum’s Board of Directors, although it does not necessarily represent the views of all members in every respect.

² Release at p. 4

³ Id.

⁴ Release at p. 1

⁵ Release at p. 8

As a result of these differences, we do not believe that the substance of the proposed AQI disclosures would be useful for shareholders of RICs. Additionally, as the Release notes, independent auditors of RICs are generally selected by a majority of the disinterested members of the board of directors, not by fund shareholders.⁶ The AQI therefore would not assist fund shareholders in deciding whether to ratify the selection of auditors. As a result, we do not believe that RICs should be required to publicly disclose the AQI metrics discussed in the proposal.

II. The Additional AQI Disclosure is Unnecessary for RIC Shareholders

With respect to auditing and accounting issues, RICs are more transparent for shareholders than most operating companies. Substantially all of an investment company's assets consist of securities, and the value of an investment in a RIC is directly correlated to the market value of those securities. The financial statements contain a detailed schedule of investments. Expenses are in the form of contractual arrangements with third parties, which are approved and overseen by fund independent directors. RICs, unlike operating companies, do not have off-balance sheet items and other accounting issues less visible to investors. The role that the auditor plays in reviewing the financial statements at a RIC thus differs substantially from that of an operating company.

Given these differences, publishing the metrics contemplated in the AQI project would neither add value to current RIC financial statement disclosures nor provide shareholders with useful information. Moreover, public disclosure of metrics such as those involving the audit professionals would not yield useful comparative data for RIC shareholders. Numerical indicators on matters such as staff workload, experience, turnover and audit hours, for example, would (and should) vary greatly between fund complexes, based on the nature of the investments and the policies and procedures surrounding fair valuation. Audit committee members are in the best position to evaluate these factors and how they impact upon the audit.

III. Shareholders of RICs Do Not Ratify Audit Selection Decisions

The goal of the AQI project is to "improve the ability of persons to evaluate the quality of audits in which they are involved or on which they rely."⁷ However, the independent auditors of RICs are ordinarily selected by a majority of the disinterested members of the board of directors, not by fund shareholders. While fund independent directors may well ask auditors about issues such as staff workload, experience, turnover and so on, this information would not be helpful to fund shareholders, as they do not ratify the auditor selection.

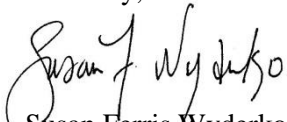
Unfortunately, if mandated, this added disclosure would result in additional audit costs, which would be passed along to shareholders. We are unaware of any fund shareholders asking for additional disclosure regarding the quality of fund audits, and therefore, we see no benefit to fund shareholders of requiring public disclosure of the AQI discussed in this proposal.

⁶ Release at p. 28

⁷ Release at p. 4

We look forward to continuing to participate in this ongoing discussion, as independent directors have an important role to play in fostering healthy communications with fund shareholders. If you would like to discuss our comments further, please feel free to contact us at 202-507-4488.

Sincerely,


Susan Ferris Wyderko
President, CEO

cc: James R. Doty, PCAOB Chairman
Lewis H. Ferguson, PCAOB Member
Jeanette M. Franzel, PCAOB Member
Jay D. Hanson, PCAOB Member
Steven B. Harris, PCAOB Member