Office of the Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

September 4, 2015

RE: File Number S7-13-15, SEC Concept Release: *Possible Revisions to Audit Committee Disclosures*

Dear Sir:

We appreciate the opportunity to comment on the Securities and Exchange Commission's (the "SEC") Concept Release on *Possible Revisions to Audit Committee Disclosures* (the "Concept Release"). We commend the SEC for reexamining disclosures about how audit committees oversee auditors. We note the degree to which corporate governance, and specifically the role and responsibilities of audit committees, has evolved since 1999 when the majority of the current rules were adopted, and believe it is appropriate to consider whether audit committee disclosures should be enhanced to provide more relevant and useful information for investors and other stakeholders.

Enhancing transparency often serves to build trust and instill confidence in the capital markets; however, it is important to recognize and consider potential unintended consequences and evaluate whether the benefits outweigh the costs. While we recognize that companies have different governance structures and one size does not fit all, we believe there is an opportunity for audit committees to meaningfully expand disclosures related to their role in overseeing the auditor if the reporting is flexible compared to a listing of prescriptive requirements.

We also recognize that we, as auditors, play a role in enhancing transparency as well. We embrace that role, as demonstrated by our actions, such as:

- Annually we issue *Our Focus on Audit Quality*, wherein we describe our system of quality controls, our quality results, and other actions we have taken to enhance audit quality. We voluntarily include "Transparency Data Points," which provide information and insights about our audit practice and our investments in and focus on quality.
- We continue to be supportive of naming the audit partner and certain other participants involved in the audit as long as the information is not included or incorporated by reference into any Securities Act registration statements.
- We continue to be supportive of changes to the auditor's report that maintain or improve audit quality.

Overview

We support enhancing transparency when it provides meaningful information to the capital markets, as long as the benefits outweigh the costs and unintended consequences can be limited. Specifically, we believe it is appropriate to require disclosures by the audit committee in the three broad categories discussed in the Concept Release: (1) Audit committee's oversight of the auditor, (2) Audit committee's process for appointing or retaining the auditor, and (3) Qualifications of the audit firm and certain members of the engagement team selected by the audit committee.

Given that individual companies' facts and circumstances vary and that audit committees carry out their responsibilities in different ways, we believe the SEC should consider a principles-based approach, and not prescribe specific items to disclose within each category. For example, audit committees take on many diverse responsibilities, often driven by different exchange listing rules and varying company circumstances. Due to these differing requirements, some of the suggested disclosures discussed in the Concept Release relate to responsibilities that do not apply to all audit committees. This approach may lead to a check the box exercise instead of consideration of what disclosures are most relevant given a company's facts and circumstances. Accordingly, we believe avoiding prescriptive disclosure requirements and, instead, allowing companies flexibility in crafting disclosures within the three broad categories would be more beneficial.

Also, given that audit committee charters and other proxy disclosures already describe audit committees' responsibilities for overseeing the auditor, we believe it is appropriate for the focus to be on how audit committees carry out those responsibilities, not what are those responsibilities. Doing so may help reduce the likelihood of disclosures becoming boilerplate and less relevant.

We believe allowing for flexibility in the audit committee disclosures recognizes that one size does not fit all, may reduce the expectations gap, may make the disclosures more meaningful, and may reduce the likelihood of disclosures becoming boilerplate. As a result, we recommend only requiring that the above categories be addressed, but not being prescriptive in how they are addressed. Rather, that should be at the discretion of the audit committee.

Under a principles-based approach, we believe many of the topics included in the Concept Release may be appropriate for an audit committee to discuss if they are relevant to the facts and circumstances. For other topics, there may be unintended consequences of certain disclosures, including the potential to chill the dialogue between the auditor and audit committee by potentially restricting the free exchange of information due to concerns over what might need to be disclosed. We outline our specific concerns on those in the following sections of this letter, and ask that they be considered as the project progresses.

Audit committee's oversight of the auditor

Additional information regarding the communications between the audit committee and the auditor

We believe in some instances it could be valuable for an audit committee to disclose information about certain matters communicated from the auditor to the audit committee (whether required communications - those mandated by auditing standards and other rules - or other communications); however, it is important to provide audit committees with flexibility in determining what matters to disclose. Requiring specific disclosures could have the unintended consequence of chilling the dialogue between the audit committee and the auditor. For example, requiring disclosure of topics covered in executive sessions could inhibit candid discussion of confidential, sensitive matters.

Also, we believe that requiring audit committees to disclose how they considered and responded to all the required audit committee communications could result in boilerplate disclosures that may not be meaningful. Some required communication items may be straight-forward for consideration by the audit committee. For example, depending on the circumstances, the nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results related to significant risks may be minimal; requiring the audit committee to disclose how it considered such items would not be meaningful, and the disclosure would become boilerplate to meet the requirement. Further, many items considered by the audit committee will most likely be consistent year over year, resulting in boilerplate disclosures that it considered the information and concluded it was appropriate in the situation.

The frequency with which the audit committee met with the auditor

While we recognize that frequent communication between the auditor and audit committee is beneficial, we have concerns about requiring disclosures related to the frequency of contact between the audit committee (or audit committee chair) and the auditor both during and outside of formal audit committee meetings, including private sessions. Such quantitative, required disclosures lack context, may lead to boilerplate disclosure and may not be consistently calculated. We believe there should not be any requirement to disclose the number of meetings held between the audit committee and the auditor, as reporting the number of meetings does not provide useful information on whether the frequency was sufficient. Disclosing the number of meetings, by itself, does not meet the objective of reporting on how audit committees fulfill their oversight responsibilities.

While it is good (and fairly standard) practice for audit committees to meet periodically in private session with external auditors, it's a requirement only for audit committees of NYSE-listed companies. As such, it would not be useful to compare disclosures on the number of private sessions between NYSE and NASDAQ listed companies.

For interactions outside of formal audit committee meetings, there may be inconsistency in terms of what degree of contact would count as a "meeting." For example, would a short phone call between the audit committee chair and the audit partner count as a meeting? From a practical perspective, there may be challenges to consistently calculate the number of emails, phone calls, and in person meetings in the same manner, both from year to year for a company as well as across companies. If there's an issue that would otherwise see the number of meetings increasing substantially in a given year, it could dampen the frequency of communication if the number would have to be disclosed. Also, if additional meetings are needed as a result of a unique event in one year, one might question the decrease in meetings reported for the subsequent year.

Review of and discussion about the auditor's internal quality review and most recent PCAOB inspection report

An audit committee has a broad range of items it could disclose about its oversight of auditors. One potential area is how the audit committee considers the information reflected in the public portion (i.e., Part I) of the Public Company Accounting Oversight Board (the "PCAOB") inspection reports in its oversight of the auditors. For example, an audit committee could disclose its consideration of how matters identified in Part I might apply to the company's audit and how it assessed whether the external audit plan is responsive to those findings. We are supportive of this being an area that audit committees could consider disclosing as it relates to their responsibilities regarding the oversight of the auditor, and we believe audit committees should have flexibility in the disclosures made. It is unclear from the Concept Release whether the SEC is suggesting the results of a specific company inspection or a specific audit firm's report be discussed, however, prescriptive requirements that include such matters could raise the following concerns:

- It is possible PCAOB inspection results in a given year will not apply to a company's audit situation, so requiring specific disclosures would not be helpful and could lead to boilerplate disclosures.
- Discussions regarding Part I of the PCAOB's inspection report (and hence disclosures related to those discussions) also could vary from company to company. For example, the audits of many companies will not have been subject to inspection by the PCAOB in a given year, and so discussion appropriately may be focused on the audit firm's Part I inspection results as a whole. Other companies' audits may have been inspected, and the nature of what could be disclosed, consistent with the PCAOB's approach of not identifying issuers in Part I, could vary.
- If a company uses an external audit firm that is not inspected annually by the PCAOB, the audit committee's disclosure of how it considered PCAOB inspection results may be repeated, unchanged for a few years, until a new report is issued. Being required to highlight that the external audit firm is

small and not subject to annual PCAOB inspection may have an unintended consequence that audit committees feel pressure to change to larger firms that are subject to annual inspections, whereas, if provided with flexibility, an audit committee may choose to discuss how it considered other public information (e.g., PCAOB 4010 reports or Audit Committee Dialogue, Center for Audit Quality's Alert *Select Auditing Considerations*, etc.) in the context of the audit it oversees.

As a result, we believe the rules should provide flexibility on how audit committees disclose their consideration of inspection results.

Qualifications of the audit firm and certain members of the engagement team selected by the audit committee

Disclosure of certain individuals on the engagement team

We are supportive of audit committees discussing the principal qualifications of the external audit firm and how they became comfortable with the qualifications of the audit engagement team. Providing audit committees the flexibility to disclose how they reached decisions about the firm and the qualifications of the team could help alleviate any misimpression that the audit is the product solely of the engagement partner, rather than the entire firm.

The PCAOB is also currently considering requiring the name of the lead engagement partner to be identified, which we expect will result in the issuance of a PCAOB rule on this matter. We are supportive of audit committees identifying the lead engagement partner, as this provides the audit committee an opportunity to provide context in the selection of the engagement partner in connection with the qualifications of the rest of the engagement team and the audit firm. Audit committees typically consider an individual partner's qualifications and experience as part of determining whether they are comfortable having that individual leading the audit engagement. This generally is done as part of a process where they meet with and can question the partner, assess his or her competence and consider other relevant factors. For example, if a less tenured partner is being considered to lead an audit engagement, the audit committee may consider the experience of other partners and managers who are on the engagement. Allowing audit committees an opportunity to provide this context if they deem it appropriate will most likely result in more meaningful disclosures than a list of required factors that may develop in selecting an audit partner. We believe this is more reflective of how audit committees make their selection of an engagement partner today.

Consistent with the PCAOB's most recent approach in the *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*, we recommend the information be provided in a location that would not be incorporated by reference into any Securities Act registration statements as it relates to identifying an engagement partner or other audit participants, to avoid the practical challenges in obtaining consents and to eliminate concerns about potential liability under Section 11 of the Securities Act. We are supportive of this disclosure in addition to the PCAOB's proposal to disclose the audit partner's name in a separate PCAOB form. In due course, it may be appropriate to evaluate whether stakeholders find benefit in having the disclosure in two different places, as it may meet different objectives, or if it is redundant. For example, if similar search capabilities exist with disclosing the name in an audit committee disclosure, stakeholders may determine disclosing the name in a separate PCAOB form is redundant.

The number of years the auditor has audited the company

The Concept Release states "most academic research indicates that engagements with short-term tenure are relatively riskier or that audit quality is improved when auditors have time to gain expertise in the company under audit and in the related industry." We also acknowledge there are other studies that report different results. We recognize that some stakeholders find value in tenure disclosures. We support allowing companies to disclose tenure in response to their individual facts and circumstances, but believe mandating its disclosure, especially when we believe there is not a correlation between tenure and audit quality, may imply there is such correlation.

Other possible disclosures

The Concept Release asks whether audit committees should be required to provide disclosures about their role in overseeing areas such as internal audit and risk management. We believe the SEC should not mandate disclosures in areas where not all audit committees have the same required responsibilities. All audit committees do not necessarily perform those functions due to differing requirements; therefore, the disclosures would not be comparable across companies and may lead stakeholders to inappropriate conclusions about the effectiveness of certain audit committees. For example, the audit committees of NYSE-listed companies are required to oversee the internal audit function, while NASDAQ-listed companies are not required to have internal audit functions - and many smaller NASDAQ-listed companies do not. Similarly, some boards assign responsibility to oversee areas like cybersecurity risk to the audit committee, while others oversee it at the full board or assign it to another board committee. Companies can always choose to disclose additional information on audit committees' other oversight responsibilities if they believe it will be useful for stakeholders or if stakeholders are requesting it.

Conclusion

We support enhancing the transparency of how audit committees fulfill their important function of overseeing the auditor. We believe the most meaningful and relevant information would be supported by a principles-based rule that requires the three broad areas be addressed but provides companies with flexibility to determine how best to describe how the audit committee carries out its responsibilities in those areas. This will allow meaningful information to be provided to the capital markets, minimize the unintended consequences, and reduce the risk of boilerplate disclosures.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the SEC staff or the Commissioners may have. Please contact Michael J. Gallagher ([redacted]) or Catherine Bromilow ([redacted]) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP