September 7, 2015

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

RE: *Possible Revisions to Audit Committee Disclosures* (File No. S7-13-15)

Dear Commissioners and Staff:

I am writing to provide input on the SEC's Concept Release on audit committee disclosures. My views are informed by many years performing research related to auditing and corporate governance, especially the role and performance of corporate audit committees. In addition, my views reflect my service on the SEC's Investor Advisory Committee (2014-2018), as well as my years serving on the PCAOB's Investor Advisory Group (IAG) (2010-2015) and Standing Advisory Group (SAG) (three 2-year terms between 2006 and 2012).

In my view, existing audit committee disclosures are generally woefully inadequate, and mandated disclosures are so minimal as to provide virtually no useful information. I applaud the SEC and its staff for undertaking this project. I encourage the SEC to complete the project on a timely basis.

I believe that the following suggestions would result in an improved document.

1. The Concept Release indicates that audit committees typically perform multiple roles, overseeing: (1) the accounting and financial reporting process; (2) external audits; (3) internal audits; and (4) internal control (see p. 6, 14). However, the Concept Release only addresses audit committee oversight of the external audit process. Although overseeing the external audit process is extremely important and, if done well, a linchpin of reliable financial reporting, any final rule that changes audit committee disclosures should better reflect typical audit committee mandates.

2. Existing audit committee disclosures focus on *what* audit committees do. As the Concept Release suggests, any change to audit committee disclosures should focus on *how* audit committees discharge their responsibilities (see p. 18).

3. With respect to the audit committee's oversight of the external auditing process, the Concept Release suggests that disclosures might fall into three categories: (a) oversight

of the auditor, (b) process for selecting the auditor, and (c) consideration of the qualifications of the audit firm and certain engagement team members. With respect to the external auditing process, these are reasonable categories.

4. In my view, the threshold issue for the SEC to consider is whether to mandate specific items to disclose under items 3a-3c. The list of potential disclosure items in the Concept Release was appropriate and comprehensive. The benefit of this approach is that all companies would disclose the same information, but this benefit comes at a substantial cost. Mandating that all audit committees disclose the same information almost guarantees boilerplate reporting. Boilerplate reporting has little, if any, informational value. Rather than improving disclosure effectiveness, effectiveness would likely decline due to the additional information processing burden placed on users.

5. I encourage the SEC to consider an alternate approach. I suggest that the SEC require audit committees to disclose *how* they discharge their responsibilities under items 3a-3c, as well as discharging their responsibilities to oversee the financial reporting process, internal control and, if applicable, internal audit. The final rule could give examples of items that might be disclosed, but any rule would indicate that such items were purely examples and indicate that the value of the disclosure is not *what* the audit committee does but rather *how* the audit committee does it. The SEC should indicate through the text of any final rule that they expect disclosures to be bespoke, and to vary across companies and within the same company across time. The advantage of this approach is that audit committee disclosures will vary – and it is such variation that offers information content and that also serves as a signaling device (of both audit committee quality and possibly of financial reporting quality).

6. As discussed previously, I generally oppose adding a long list of additional items that the audit committee would have to disclose. However, in one area, additional disclosure is needed. Anecdotal evidence suggests that it too many instances audit committees abdicate the determination of the external audit fee to management. This is problematic and, in my view, in direct contravention of the Sarbanes-Oxley Act. The SEC should mandate that audit committees disclose how the committee obtained comfort that the audit fee was sufficient to generate a high quality audit of sufficient scope, and to also disclose any role played by management in negotiating the fee.

7. As the Concept Release indicates, disclosures pertaining to the audit committee are sometimes scattered throughout the proxy and other filings. To facilitate ease of information processing, all disclosures related to the audit committee should either be placed together or, at a minimum, cross referenced within and across documents.

8. Although the Concept Release was largely silent with respect to audit committee composition, the SEC should consider working with the stock exchanges to both tighten the definition of an audit committee financial expert (ACFE) and to encourage companies to have at least two ACFEs on each audit committee, especially for larger companies and/or for companies in more complex industries. A large body of academic literature generally finds that accounting ACFEs are more effective than non-accounting

ACFEs. Based on these research findings, over more than a dozen years, it appears that the SEC's original definition of an ACFE (as promulgated in the SEC's Proposed Rule) better captured the characteristics of an effective ACFE than the definition ultimately adopted (in the SEC's Final Rule).

Thank you for considering my suggestions.

Sincerely,

Joseph V. Carcello

Joseph V. Carcello
Department Head – Accounting & Information Management
Executive Director – Neel Corporate Governance Center
EY and Business Alumni Professor
Haslam College of Business, University of Tennessee