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Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

8 September 2015

Re: Possible Revisions to Audit Committee Disclosures
(Release No. 33-9862; 34-75344) Commission File No. S7-13-15

Dear Mr. Fields:

Ernst & Young LLP (EY) is pleased to comment on the Possible Revisions to Audit Committee Disclosures (the Concept Release) issued by the Securities and Exchange Commission (SEC or the Commission). The Concept Release solicits views on whether the SEC should require audit committees to report more information about their oversight of the independent auditor and, if so, what information investors would find useful.

Through their oversight, audit committees contribute substantially to the quality of financial reporting. Consequently, EY believes that more information about how audit committees execute their role and responsibilities can help investors assess and have greater confidence in the independence and effectiveness of the audit committee. Such confidence contributes to strong, well-functioning capital markets.

While the requirements for the audit committee's report have not changed since the SEC adopted them in 1999, audit committees have voluntarily disclosed more information in recent years in response to calls from investors and others for greater transparency and better communication. EY has tracked this trend and, in this letter, we provide an update on voluntary audit-related disclosures in 2015 proxy statements.

We are hopeful that this trend will continue to gain momentum. Allowing audit committees to respond to investor needs and the evolving corporate governance landscape is preferable at this time to developing prescriptive rules. We therefore believe the SEC should encourage continued improvement in disclosures by audit committees but should not mandate specific additional disclosures.

We believe that audit committees, in responding to the heightened expectations of the Sarbanes-Oxley Act of 2002 (the Act), have helped reduce risk in corporate financial reporting and improve the quality of independent audits, all to the benefit of investors and capital markets. The audit committee's work, however, is much broader than matters required to be disclosed by existing rules and the oversight of the independent auditor, as discussed in the Concept Release.

What we are hearing from investors and audit committees

As the auditor of more than 1,000 US public companies, we interact regularly with audit committees and periodically meet with investor groups and regulators to inform our views about corporate governance. In addition, to explore issues and discuss key themes within the Concept Release, EY hosted meetings with various stakeholders, including audit committee chairs, investors, auditors, legal advisers and academics. One key takeaway was that audit committees could be more effective in communicating to investors what they do and how they do it. At the core, we believe the issue is one of communication, and we commend the SEC for considering how to best address it.

One objective of our discussions was to explore the types of disclosure that would be most beneficial to investors and capital markets. While there was a range of views among the diverse participants, there seemed to be general agreement that audit committee disclosures should:

- Explain the rigorous process and diligence with which audit committees perform their oversight responsibilities and provide confidence that the audit committee is acting in the shareholders' best interests
- Help investors assess the quality of the audit committee
- Communicate how the audit committee challenges potential management bias in significant judgments and estimates
- Communicate how the audit committee promotes audit quality and quality financial reporting
- Protect, not chill, frank and candid communication among management, the independent auditor and the audit committee
- Give investors the ability to observe variances in how audit committees execute their responsibility, while avoiding disclosure overload and boilerplate language

In these discussions, audit committee chairs said their role is broader than audit oversight and expressed concern that the Concept Release places undue emphasis on the audit committee's oversight of the external auditor to the exclusion of other important committee functions that they see of critical importance and value to investors.[1] They observed that an audit committee's responsibilities are described in its charter and noted that compliance with the charter is closely monitored. Audit committee members discussed how extensive their oversight is, during formal meetings of the full committee, ex parte communications between scheduled meetings and in private executive sessions with management, internal audit and the external auditor.

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[1] The audit committee chairs said their committees also spend considerable time on areas such as: (1) assessing the adequacy of resources in the company's finance, accounting and compliance functions (e.g., people, systems and processes), (2) reviewing interim and annual financial statements and MD&A, earnings releases and earnings guidance, (3) overseeing the company's system of internal control over financial reporting, (4) overseeing the internal audit function, (5) challenging management on key estimates and judgments, and reviewing management's use of internal and external specialists, (6) monitoring compliance with US and foreign laws (e.g., FCPA, UK Bribery Act) and (7) overseeing special investigations (e.g., fraud inquiries, whistleblower complaints, regulatory actions).

Investor participants in our discussions were interested to learn more about the scope of the audit committee's responsibilities and the amount of time they devote to topics other than the audit, and they expressed concern that most audit committee reports don't explain the scope of the committee's work or where the committee focuses its attention. They raised questions about whether audit committees' responsibilities and performance are consistent across public companies. Investors also expressed a desire to understand the quality and effectiveness of a given audit committee, how the audit committee evaluates audit quality and what factors weigh on the audit committee's judgments related to auditor appointment and compensation.

Audit committee chairs said the evaluation of audit quality is a continuous process. It involves assessing the audit firm's and the audit team's independence and objectivity with respect to management and the company, the lead partner's industry knowledge and confidence in dealing with management and the audit committee, the audit firm's resources and service delivery at the company's key locations, the quality and candor of the communications received from the auditor and the responsiveness of the auditor when issues or concerns arise. Audit committee chairs also discussed how non-audit services and fees are considered and challenged before the audit committee provides preapproval. In addition, they discussed the required five-year rotation of the lead audit partner in relation to the audit committee's evaluation whether to tender the external audit or change audit firms.

In the discussions, participants agreed that the current SEC requirements for the audit committee report[2] do not reflect everything that audit committees are doing and how they are doing it. The audit committee chairs indicated that they have provided voluntary disclosures beyond these requirements in an effort to address investor requests and apply best practices. However, they questioned whether expanding the requirements would achieve more transparency or result in additional boilerplate. They also expressed concern about whether expanded reporting would increase their exposure to litigation. There was some discussion about the risk that if new requirements were added, corporate counsel might advise against disclosure beyond any new SEC requirements, thereby curbing the audit committee disclosure innovation trend that has been observed.

We believe the SEC will hear many of these same themes in comment letters on the Concept Release.

Trends we are seeing in audit committee reporting

Our research shows a steady increase in the depth and scope of audit committee-related disclosures by Fortune 100 companies since the 2012 proxy season. We continue to observe that audit committees are going beyond the basic requirements to provide more relevant, useful information, particularly information about how they oversee their external auditor. For example, our data shows that in 2015:

- 71% of companies in the study specified that the audit committee is responsible for the appointment, compensation and oversight of the auditor, compared with 41% in 2012.

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[2] Item 407 of Regulation S-K requires the audit committee report to state that the audit committee has (1) reviewed and discussed the audited financial statements with management, (2) discussed with the independent auditor the matters required by AU sec. 380, Communications with Audit Committees, (3) received the required written communications from the independent accountant concerning independence, as required by the rules of the PCAOB, and has discussed with the independent accountant his or her independence and (4) recommended to the board of directors that that audited financial statements be included in the company's annual report on Form 10-K (or other form of annual report) for the last fiscal year for filing with the Commission.

- 61% of companies in the study disclosed that the audit committee was involved in the selection of the audit firm's lead engagement partner; in 2012, none of the companies in our study did so.
- 80% of companies in the study noted that they consider non-audit services and fees when assessing the independence of the external auditor, compared with 11% in 2012.
- 59% of companies in the study disclosed auditor tenure, compared with 25% in 2012.
- 58% of companies in the study explicitly state their selection of the external auditor is in the best interests of the company and/or shareholders, compared with 3% in 2012.
- 21% of companies in the study disclosed that the audit committee was responsible for the auditor's fee negotiation; in 2012, none of the companies in our study did so.

In Appendix A, we provide more information about the trends in audit committee reporting to shareholders.

Over the past few years, audit committee disclosures have been receiving attention from a variety of stakeholders, including US and non-US regulators, investors and policy organizations.[3] Some investor groups have requested more transparency by audit committees.[4]

EY sees these reporting developments as evidence that audit committees are responding to calls from investors and others for more transparency and better communication. We are hopeful that this trend will continue to gain momentum, and we believe the SEC should support these initiatives. In our view, as discussed further below, allowing audit committees to respond to market demand and the evolving corporate governance and reporting environment may prove preferable to a prescriptive regulatory approach, at least at this time.

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3 In 2012, in an effort known as the Audit Committee Collaboration, the National Association of Corporate Directors, Corporate Board Members/NYSE Euronext, Tapestry Networks, the Directors' Council, the Association of Audit Committee Members, Inc. and the Center for Audit Quality came together to work on projects intended to expand audit committee access to useful tools and materials and to strengthen audit committee performance and transparency. Their report, *Enhancing the Audit Committee Report: A Call to Action*, which is available at http://www.thecaq.org/docs/audit-committees/enhancing-the-audit-committee-report-a-call-to-action.pdf?sfvrsn=2, urges audit committees to assess current disclosures and consider proactively strengthening their public disclosures. The report also cites specific examples of emerging practices.

4 For example, in 2014 the pension funds of the United Brotherhood of Carpenters broadened their letter-writing campaign to nearly 100 large companies asking audit committees to enhance their disclosures. Also, in 2014, proxy advisory firm Institutional Shareholder Services (ISS) conducted a survey seeking feedback on potential changes to its voting policies, including whether it should examine companies' transparency with regard to the audit. In addition, in 2015 the Council of Institutional Investors, a nonprofit, nonpartisan association of corporate, public and union employee benefit funds and endowments, updated its policies on corporate governance to address, among other things, enhanced audit committee disclosures. Those policies are available at http://www.cii.org/corp_gov_policies.

The path forward

As we have considered the range of actions the SEC might take, we have been guided by the following observations:

- The primary issue to be addressed is one of communication, not creating new performance standards. To be sure, there are variations in audit committee performance. However, we believe investors may gain information by observing differences in the scope and depth of disclosures from audit committees regarding how they execute their role and responsibilities.

- An SEC initiative to clarify the purpose and objectives of the audit committee report could be broad and principles-based to provide flexibility as corporate governance trends evolve over time and to discourage boilerplate disclosures.

To improve transparency and audit committee disclosure effectiveness, the SEC could encourage innovation in audit committee disclosures by articulating the basic objectives of the disclosures by and about audit committees. This could motivate companies to improve the usefulness of reports if they are among those that currently don't go beyond complying with the existing requirements. We believe such action could prompt increased constructive engagement and alignment between audit committees, auditors and investors.

Disclosure objectives

We suggest that the following should be considered fundamental objectives of audit committee reports:

- **Convey the audit committee's compliance with its charter** — Disclosures made to address this objective should confirm the audit committee's compliance with the responsibilities enumerated in its charter and identify any material exceptions. Such disclosures would help investors assess whether the audit committee met its corporate governance obligations.

- **Convey alignment with shareholders' interests** — Disclosures made to address this objective should focus on the audit committee's independence from management and how its work represents and protects the interests of shareholders. Such disclosures would help investors assess whether the audit committee is exercising its oversight authority to protect the interests of shareholders.

- **Provide a balanced perspective on the work of the audit committee** — To meet this objective, the audit committee report should communicate the scope and relative focus of the audit committee's work over the course of the year. Such disclosures would help investors appreciate the scope and extent of the audit committee's work on their behalf and provide context to help them understand the basis of the audit committee's conclusions and recommendations.

- **Describe actions that promote high-quality financial reporting** — Disclosures made to address this objective should focus on the audit committee's actions that promote the accuracy and reliability of the company's annual and interim financial reporting. Such disclosures would help investors assess the diligence and rigor of the audit committee's oversight of management and its financial reporting function.

- **Describe actions that promote audit quality** — Disclosures made to address this objective should focus on the audit committee's actions that promote audit quality and the reliability of the assurance that investors receive on the company's annual and interim financial statements. Such disclosures would help investors assess the diligence and rigor of the audit committee's oversight of the independent registered public accounting firm.

- **Communicate conclusions and recommendations** — Disclosures made to address this objective should focus on material results of the audit committee's work, including its recommendation to the board that the audited financial statements be included in the company's SEC annual report, as well as conclusions on the appropriateness of the appointment and compensation of the independent registered public accounting firm. Such disclosures would communicate to investors the substantive results of the audit committee's work.

Consistent with these six fundamental objectives of the audit committee report, we believe there are opportunities for better communication by audit committees within the existing rules-based disclosure regime. In Appendix B, we outline several areas related to the fundamental objectives described above in which audit committees could provide more transparent and effective disclosures. Appendix B also identifies some disclosure requirements that the SEC could clarify to enable more effective audit committee disclosures.

As discussed above, we do not recommend that the SEC amend its audit committee disclosure requirements to mandate specific additional disclosures. Instead, in addition to the SEC encouraging more informative disclosures as discussed above, we recommend that the SEC staff monitor the effect of the SEC's efforts and those of other initiatives on audit committee disclosures that exist or develop (e.g., voluntary disclosure enhancements; shareholder proposals; PCAOB actions related to transparency,[5] audit quality indicators and the auditor's report;[6] developments under the revised UK reporting regime; private sector collaboration among representatives of investors, audit committees, auditors, academia and the securities bar). The SEC staff could report its observations to the Commission and make recommendations on whether any further Commission action is warranted.

We believe the SEC should continue to support the trend of more robust voluntary audit committee disclosures by encouraging the development of best practices. The SEC could observe that audit committee disclosures should be refreshed each year to avoid needless boilerplate and repetition.

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5 Our comment letter on the PCAOB's recent proposal on improving transparency, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*, is at: http://pcaobus.org/Rules/Rulemaking/Docket029/032d_EY.pdf. We appreciate the efforts the PCAOB has made to take into account the concerns and viewpoints of a variety of stakeholders, and believe the PCAOB's proposed use of Form AP is a much improved approach. Our comment letter focuses primarily on areas where we believe use of Form AP and the related filing process might be improved or made more practical.

6 Our comment letter on the PCAOB's initiative on changes to the auditor's report, *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments*, is at: http://www.ey.com/Publication/vwLUAssetsAL/CommentLetter_EE0944_PCAOBAuditorReportingProposal_18December2013/$FILE/CommentLetter_EE0944_PCAOBAuditorReportingProposal_18December2013.pdf. While we are supportive of the PCAOB's overall efforts relating to the auditor's reporting model, we also believe that certain elements of this proposal present challenges that may give rise to significant application difficulties in practice. Therefore, in our comment letter to the PCAOB, we proposed changes to address these concerns.

Further, the SEC could encourage issuers, audit committees, investors and other stakeholders to engage in an ongoing dialogue about ways to better inform investors about the audit committee's work as the financial reporting environment evolves.

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We appreciate the opportunity to comment on the Concept Release. We are hopeful that the Concept Release and any actions the SEC takes will encourage more transparent audit committee communications, which will enhance investors' appreciation of, and confidence in, the oversight that audit committees provide on their behalf. We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Very truly yours,

Ernst + Young LLP

Appendix A — Summary: Trends in audit committee disclosures

Below are our 2015 findings on voluntary audit committee-related disclosures found in the proxy statements of Fortune 100 companies. They show steady pace of increasing voluntary disclosures on a year-over-year basis from 2012 to 2015, indicating that companies are responding to investor and policy maker interest in this area. This conclusion is based on a review of the 76 companies in the 2015 Fortune 100 that filed proxy statements for four consecutive years as of 15 August 2015.

		2012	2013	2014	2015
Category	Topic	% of total	% of total	% of total	% of total
Disclosures in the audit committee report[7]	Statement that the audit committee is independent	57%	54%	58%	58%
	Name of the audit firm is included in the audit committee report	75%	75%	74%	74%
Audit committee composition	Audit committees with 1 financial expert (FE)	29%	26%	29%	25%
	Audit committees with 2 FEs	17%	25%	14%	12%
	Audit committees with 3 or more FEs	54%	49%	57%	63%
Audit committee responsibilities re: external auditor	Explicit statement that the audit committee is responsible for appointment, compensation and oversight of external auditor	41%	54%	66%	71%
Identification of topics discussed	Topics discussed by the audit committee and external auditor	8%	8%	7%	8%
Fees paid to the external auditor	Statement that the audit committee considers non-audit fees/services when assessing auditor independence	11%	80%	80%	80%
	Statement that the audit committee is responsible for fee negotiations	0%	9%	18%	21%
	Explanation provided for change in audit fees paid to external auditor	3%	4%	7%	9%
Assessment of the external auditor	Disclosure of factors used in the audit committee's assessment of the external auditor's qualifications and work quality	17%	20%	34%	39%
	Statement that audit committee is involved in lead partner selection	0%	17%	47%	61%
	Disclosure of the year the lead audit partner was appointed	3%	3%	7%	9%
	Statement that choice of external auditor is in best interest of company and/or shareholders	3%	24%	50%	58%
Tenure of the external auditor	Disclosure of the length of the external auditor tenure	25%	30%	50%	59%
	Statement that the audit committee considers the effect of changing auditors when assessing whether to retain the current external auditor	3%	17%	30%	41%
Accessibility of audit committee charters from proxy statements	Company provides a direct link to the charter	8%	11%	16%	16%
	Company main website	45%	41%	40%	39%
	Company site for investor relations	25%	26%	26%	25%
	Company site for corporate governance matters	22%	22%	18%	20%

[7] Reviewed companies may have provided this information elsewhere in the proxy or other disclosure documents.

Appendix B — Ideas for more effective audit committee reporting

This appendix identifies opportunities to strengthen audit committee disclosures. We have organized these ideas by the objectives of audit committee disclosures we describe in our letter.

Convey the audit committee's compliance with its charter

Audit committee charter: Item 407 of Regulation S-K requires that if an audit committee has a charter, registrants must either include it in the proxy statement at least once every three years (sooner if it has been materially amended) or disclose where the charter is available. Companies could include a copy of the charter in the proxy statement every year or use the audit committee report to provide a hyperlink directly to its charter on the company's website (i.e., not a link to the company's home page, the company's investor relations webpage or a corporate governance webpage, all of which would require additional navigation to the charter).[8]

We believe that investors would benefit from improved access to the audit committee charter, which usually enumerates the committee's duties and responsibilities. Audit committees could consider updating their charters, as warranted, to provide more detail about the process by which the audit committee should execute its responsibilities and factors that it should consider and evaluate in reaching its decisions and recommendations.

The audit committee could identify in its report any significant responsibilities or efforts assigned to it by the board of directors that are not enumerated in its charter. For example, some audit committees have been assigned the responsibility of overseeing cybersecurity or enterprise risk management. We believe it would be helpful for investors to understand the full scope of the audit committee's duties if they are not fully reflected in its charter.

Compliance: Currently, Item 407(d)(3)(i) of Regulation S-K requires the audit committee report to state that the audit committee has (1) reviewed and discussed the audited financial statements with management, (2) discussed with the independent auditor the matters required by AU sec. 380, *Communications with Audit Committees*, and (3) received the required written communications from the independent accountant concerning independence, as required by the rules of the PCAOB, and has discussed with the independent accountant his or her independence. If these responsibilities are enumerated in the audit committee's charter, the SEC could clarify that the disclosure could be satisfied with a simple statement that the audit committee has complied with its charter, subject to any exceptions otherwise disclosed in the audit committee report. A reference to compliance with the audit committee charter would provide greater information to investors about the discharge of the audit committee's responsibilities each year by reference to the more comprehensive document to which the audit committee is held accountable.

Auditor communications: As noted in the Concept Release, Item 407(d)(3)(i) of Regulation S-K refers to audit committee communications by the auditor pursuant to auditing standards (i.e., AU sec. 380) that have been superseded by PCAOB Auditing Standard No. 16, *Communications with Audit*

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8 A study by EY of 2015 proxy season reporting shows that approximately 15% of Fortune 100 companies provide a hyperlink directly to the audit committee charter, which is up from 6% in 2012.

Committees (AS 16). Further, it does not make reference to auditor communications required by SEC rules (i.e., Rule 2-07 of Regulation S-X). The SEC could clarify that, if the audit committee report or charter refers to the receipt of all required audit committee communications from the auditor, it can refer to AS 16, or preferably just generically refer to auditor communications required by PCAOB (US) auditing standards and SEC rules.

Convey alignment with shareholders' interests

Audit committee responsibility: Many audit committee reports include an explanation of the roles and responsibilities of management, the external auditor and the audit committee. The SEC could acknowledge that it is acceptable for the audit committee report to distinguish the responsibilities of the audit committee from those of management and the external auditor, provided that the audit committee does not effectively disclaim the audit committee's responsibilities under federal and state statutes or applicable listing standards.

Providing such clarification also could provide an opportunity for the SEC to identify and consolidate into a single reference document the audit committee requirements from various sources (e.g., federal statutes, national exchange listing standards, PCAOB required responses to the auditor). Both audit committees and investors would benefit from such a codification. This also would provide an opportunity for the SEC to reaffirm the importance of the audit committee in protecting the interests of investors.

Audit committee financial experts: Currently, Item 407(d)(5)(i) of Regulation S-K requires the proxy statement to disclose whether the registrant's board of directors has determined that the registrant has at least one financial expert serving on its audit committee and the name of that expert. An instruction to Item 407(d)(5)(i) states that if the registrant has more than one audit committee financial expert serving on its audit committee, the registrant may, but is not required to, disclose their names. Notwithstanding this instruction, registrants could consider disclosing the total number of financial experts serving on the audit committee. We have observed an increase in the voluntary disclosure of additional audit committee financial experts and an increase in the number of audit committee members that are identified as financial experts.[9] In addition, companies could disclose the relevant experience of audit committee members that supports the conclusion that they are financial experts. We believe that investors would benefit from a better understanding of the composition of the audit committee and the skills and experiences that all audit committee members bring to the table.

Provide a balanced perspective on the work of the audit committee

Location of audit committee disclosures: Audit committees could consider including the audit committee report in the proxy statement in the same location as related audit committee and auditor disclosures, such as the audit committee charter (or related hyperlink), information about the number of committee meetings and member attendance, audit committee financial expert(s), audit committee member independence, auditor fee information and auditor change disclosures. In our view, presenting these disclosures in one place would help investors understand and evaluate the information.

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9 As noted in Appendix A, approximately 63% of Fortune 100 companies disclose that three or more financial experts serve on their audit committees.

Describe actions that promote quality financial reporting

Oversight of financial reporting and internal audit: Audit committees could consider making supplemental disclosures in the audit committee report if merited in the circumstances. Information that investors might find useful in evaluating the effectiveness of the audit committee could include:

- The audit committee's views on the appropriateness of significant accounting policies, based on its discussions with management and the external auditor
- The audit committee's oversight of the issuer's system of internal control over financial reporting, including, for example, the results of management's review, the integrated audit opinion, the implications of any material weaknesses and the monitoring of the remediation of control deficiencies
- The audit committee's consideration of significant matters related to the company's quarterly financial reporting
- The audit committee's assessment of the risk of fraud
- The scope and contributions of the company's internal audit function and both the extent to which internal audit provides direct assistance to the external auditor and the extent to which the external auditor relies on the work of internal audit

Describe actions that promote audit quality

Auditor oversight: Possible areas for disclosures regarding auditor oversight that audit committees could consider (and many already provide) include:

- The nature of non-audit services provided by the auditor, the reason for significant changes from the prior year and how the audit committee evaluated the implications of non-audit services to the auditor's independence
- The audit committee's oversight and evaluation of the work of other audit firms on which the principal auditor expresses reliance in the auditor's report
- The audit committee's involvement in approving the lead audit partner (in the year of rotation) and assessment of the consequences of mandatory partner rotation
- The audit committee's process to assess the performance, objectivity and professional skepticism of the audit engagement team and the firm, and the extent to which firm tenure is a factor considered
- The audit committee's policy or philosophy on factors to consider in retention decisions and the implications for audit quality, audit risk, direct and indirect costs and the interests of investors

Communicate conclusions and recommendations

Auditor retention and compensation: Possible areas for disclosures that audit committees could consider related to auditor retention and compensation include:

- The basis for the audit committee's determination to retain the external auditor and the basis for its recommendation that shareholders ratify that selection, including the audit committee's conclusion that the recommendation is in the best interests of the company and its investors[10]

- The audit committee's conclusion that the audit fee was appropriate to obtain an independent (integrated) audit of the scope and quality to provide reasonable assurance that the financial statements are not materially misstated (and that there were no undisclosed material weaknesses as of the latest balance sheet date, if applicable), which could be supplemented with an explanation of significant changes in audit fees

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[10] We believe that voting on the ratification of the independent auditor should continue to be considered a "routine matter."