

American Federation of Labor and Congress of Industrial Organizations



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September 8, 2015

Sent via Electronic Mail: rule-comments@sec.gov

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

Re: File Number S7-13-15 Possible Revisions to Audit Committee Disclosures

Dear Mr. Fields:

On behalf of the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"), I am writing to comment on the U.S. Securities and Exchange Commission ("SEC") concept release on possible revisions to audit committee disclosures. As a general matter, we support improvements to audit committee disclosure to the extent that SEC rulemaking will not duplicate or delay pending Public Company Accounting Oversight Board ("PCAOB") standard setting.

The AFL-CIO is the umbrella federation for U.S. labor unions, including 56 unions, representing 12.5 million union members. Union-sponsored and Taft-Hartley pension plans hold \$587 billion in assets. Union members also participate directly in the capital markets as individual investors and as participants in pension plans sponsored by corporate and public-sector employers. The retirement savings of America's working families depend, in part, on companies having reliably audited financial statements.

As the SEC's concept release notes, the PCAOB has a number of ongoing standard setting projects regarding potential improvements to the transparency of public company audits. These include proposed rules to require disclosure of the engagement partner and other participants in audits, updating the auditor's reporting model to include a discussion of critical audit matters, and a concept release on audit quality indicators. If these proposed new PCAOB rules and standards are approved by the SEC, they will provide significant benefits to investors by making audits more transparent.

In this context, because the SEC has final authority to approve PCAOB rules and standards, it should use its regulatory resources to review PCAOB rulemakings in an expeditious manner. Moreover, the PCAOB was created by the Sarbanes-Oxley Act to provide specialized oversight of the audits of public companies. The SEC risks violating the legislative intent of Sarbanes-Oxley if it substitutes its own rulemaking procedure for the PCAOB's.

The SEC should focus its own rulemaking efforts on audit committee disclosures in a manner that complements the PCAOB's work. For example, the concept release asks whether the name of the engagement partner should be disclosed by the audit committee. Investors will be better served if the PCAOB requires that auditors provide this information to investors, ideally by the engagement partner's signature of the auditor's report. The SEC can complement this disclosure by requiring audit committees to disclose their role in the selection of the engagement partner.

To the extent that SEC rulemakings will complement forthcoming PCAOB rulemakings, we welcome requiring enhanced disclosure of the audit committee's oversight of the auditor, the audit committee's process for selecting the auditor, and the qualifications of the auditor and its engagement team. As described by the concept release, current practices in audit committee reporting vary widely by company. Uniform disclosure standards will benefit investors and should be applied to all public companies, including smaller reporting companies and emerging growth companies.

Increased transparency by audit committees and improvements in auditor reporting as proposed by the PCAOB will help make auditor ratification votes a more effective corporate governance accountability mechanism. Auditor ratification votes have the potential to improve the quality of audits by providing shareholders' feedback to audit committees. Given the relevance of audit committee disclosure for proxy votes on auditor ratification, these disclosures should be required to be included in the audit committee's report to shareholders in the proxy statement.

Today's auditor ratification votes are largely symbolic because shareholders routinely vote in favor of auditors without conducting any meaningful analysis. According to data from Institutional Shareholder Services for more than 4,000 U.S. annual meetings held during the twelve month period ending June 30, 2015, auditor ratification proposals received on average the support of 98.7 percent of the votes cast. To make these votes a more meaningful reflection of shareholder views, the SEC should also prohibit discretionary voting on auditor ratification by brokers for their clients' uninstructed shares as is currently permitted by NYSE Rule 452.

The limited amount of information provided to investors by audit committees is striking when compared to the voluminous amounts of disclosure provided by compensation committees. "Say-on-pay" advisory votes have been effective tools to improve executive compensation practices because the SEC also requires extensive compensation committee reporting. Institutional investors routinely invest significant

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amounts of time and energy to analyze these say-on-pay votes. Auditor ratification votes will receive similar consideration by proxy voters if shareholders are provided with sufficient information to be able to make a more informed voting decision.

Thank you for the opportunity to comment on the SEC's concept release on possible revisions to audit committee disclosures. While enhanced audit committee reporting will provide valuable benefits to investors, any improvements to the SEC's reporting requirements should not delay approval of pending PCAOB rulemakings to improve transparency of the audit itself. If I can provide any additional information on the AFL-CIO's views, please contact me at [REDACTED].

Sincerely,

A handwritten signature in black ink, appearing to read 'B. J. Rees', written in a cursive style.

Brandon J. Rees
Deputy Director
AFL-CIO Office of Investment

cc: Damon Silvers, Director of Policy and Special Counsel, AFL-CIO