



CENTER FOR CAPITAL MARKETS  
COMPETITIVENESS

RICHARD H. MURRAY  
CHAIRMAN

1615 H STREET, NW  
WASHINGTON, DC 20062-2000  
(212) 317-5339  
Richard\_Murray@swissre.com

November 25, 2009

Ms. Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Re: File Number PCAOB-2009-02

Dear Ms. Murphy:

The United States Chamber of Commerce (“Chamber”) is the world’s largest business federation representing more than 3 million businesses and organizations of every size, sector, and region. The Chamber created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21<sup>st</sup> century economy.

The CCMC recognizes the vital role of external audits in our markets and supports efforts to maintain and improve audit effectiveness, by improving quality control and auditing standards. The concurring partner review (engagement quality review (“EQR”)) is a longstanding component of audit firms’ quality control systems and procedures, and the CCMC appreciates the opportunity to comment on *Auditing Standard No. 7 – Engagement Quality Review* (“AS No. 7”) adopted by the Public Company Accounting Oversight Board (“PCAOB”). AS No. 7 represents the first new, significant auditing standard not focused on documentation or Section 404 of the Sarbanes-Oxley Act of 2002 (“SOX”) adopted by the PCAOB since its inception. Thus, AS No. 7 provides an important opportunity to assess the PCAOB’s approach to standard-setting, which is the primary focus of our comments.

While the specifics are listed below, the CCMC has serious concerns related to the lack of transparency in the PCAOB’s rule making process and a lack of focus to advance the convergence of auditing standards.

### **PCAOB Audit Standard-Setting Process**

AS No. 7 was adopted by the PCAOB on July 28, 2009 after it exposed for public comment two different drafts of an EQR standard. The PCAOB's initial draft was proposed on February 28, 2008 and the second draft on March 4, 2009. The necessity for twice exposing its proposals before adopting an EQR standard is, in part, indicative of underlying issues with the PCAOB's standard-setting approach.<sup>1</sup>

Of particular concern is that the PCAOB's standard-setting approach lacks transparency, which creates complexity, uncertainty and unease about the PCAOB's deliberation of issues.<sup>2</sup> Transparency and openness are the norm for standard setting and rulemaking. However, the PCAOB is unique in that, unlike the Financial Accounting Standards Board ("FASB"), the International Accounting Standards Board ("IASB"), the International Auditing and Assurance Board ("IAASB"), and the Auditing Standards Board ("ASB"), the PCAOB has chosen *not* to allow the public to observe the deliberations of the Board as standards are developed. The public can only observe the open meeting at which the PCAOB votes to issue a proposed or final standard, while the deliberation and consideration of proposals and standards is done in secret. As such, there is a shortage of transparency within the PCAOB's deliberative process for crafting standards.

The PCAOB's due process for auditing standards occurs through a formal comment period on a proposed standard. Such formal comment processes are likewise used by the other standard-setting bodies. However, those other bodies allow the public to observe and comment on the deliberations of the standard-setting body as the process unfolds. This allows for a give and take that enriches the standard setting process. This deficiency of public deliberation within the PCAOB process is evidenced by the long and difficult struggle to bring AS No. 7 to this point.

---

<sup>1</sup> For example, see the letter from the United States Chamber of Commerce's Center for Capital Markets Competitiveness on PCAOB rulemaking docket matter No. 025, *Proposed Auditing Standard on Engagement Quality Review* (April 20, 2009), which identified a number of issues and provided some suggestions to help address these issues.

<sup>2</sup> See also an October 7, 2009 letter from the U.S. Chamber of Commerce to PCAOB Acting Chairman Daniel Goelzer expressing concerns regarding the lack of transparency and accountability in the operations of the proposed Investor Advisory Group.

### Convergence of Auditing Standards

Issues with the audit standard-setting approach also undermine the wisdom of the PCAOB's decision to write its own audit standards. SOX Section 103 gives the PCAOB great flexibility in its approach to standard-setting. For example, rather than formulate its own standards, SOX allows the PCAOB to adopt standards proposed by other professional groups of accountants (with or without modification). One logical group to consider is the IAASB, which in the context of AS No. 7 has an updated EQR standard.

Fundamentally, the PCAOB has failed to acknowledge that public companies operate in a global market place. Indeed, a convergence of auditing standards would benefit both investors and issuers in the assurance of reliability of information on a singular basis. Moreover, in the specific case of AS No. 7, the PCAOB has failed to explain, in any compelling or convincing way, why its standard is superior to the IAASB's and how differing standards will assist investors and issuers.

Adopting standards proposed by the IAASB is consistent with the spirit of convergence,<sup>3</sup> which the CCMC has previously encouraged the PCAOB to embrace.<sup>4</sup> In continuing to write audit standards, without exploring the potential tangible and intangible benefits of convergence, the PCAOB has once again failed to acknowledge the globalization of the economy and the unique needs these changes have imposed upon businesses and investors alike. Commonalities in the dissemination, reliability, and evaluation of financial information assist in capital formation and the sound operation of markets. As the SEC has already recognized the importance of the convergence of accounting standards, the CCMC encourages the SEC to also recognize the importance of the convergence of auditing standards in exercising its oversight of the PCAOB.

### Use of Release Text

The CCMC has one additional point on the practical implications of the PCAOB's standard-setting approach in the context of AS No. 7. As explained earlier, the lack of transparency in the standard-setting process means that the views of the

---

<sup>3</sup> The ASB and IAASB have already committed to convergence of their standards.

<sup>4</sup> For example, see letter from the United States Chamber of Commerce Center for Capital Markets Competitiveness on PCAOB rulemaking docket matter No. 026, *Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk* (February 18, 2009).

Ms. Elizabeth M. Murphy

November 25, 2009

Page 4

PCAOB are not well understood. To help address this problem, the PCAOB uses release text in conjunction with proposing or adopting a standard. However, in using release text to explain the basis for its conclusions, at times the PCAOB also appears to use release text to modify the standard and undermine the intent and meaning of the words in the standard itself.

For example, the release text of AS No. 7 might be interpreted to create a new and different EQR documentation requirement than that which is proposed in the standard itself. Further, the release text suggests that the purpose of AS No. 7 is not to advance audit quality, but rather to facilitate inspection and enforcement. Specifically, in the release text, Section F on "Documentation of the EQR" states: "Rather, the EQR documentation should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand, e.g., the significant deficiency identified, how the reviewer communicated the deficiency to the engagement team, why such matter was important, and how the review evaluated the engagement team's response" (p. 21).

The use of release text in this way is particularly troubling because it will be referenced by plaintiff attorneys, PCAOB inspectors, and other regulators as the touchstone of the PCAOB's intent. Further, as it appears in an adopted standard, this release text was not subject to the PCAOB's comment process.

It is important to ensure that the PCAOB avoids confusing, undermining, or altering its standards through inconsistent statements, in particular statements in the release text that accompanies a final standard.

### Conclusion

In conclusion, the CCMC appreciates the opportunity to comment on the PCAOB's *Auditing Standard No. 7 – Engagement Quality Review*. Promulgating this standard has provided an opportunity to explore and evaluate the PCAOB standard-setting process. The CCMC realizes that the PCAOB has rarely engaged in standard setting and indications are that this tempo may change. We hope that the SEC will recognize the importance of this matter and facilitate a modification of PCAOB standard setting and deliberations.

Ms. Elizabeth M. Murphy  
November 25, 2009  
Page 5

Sincerely,

A handwritten signature in black ink, appearing to read "R. Murray". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Richard H. Murray  
Chairman  
Center for Capital Markets Competitiveness  
U.S. Chamber of Commerce