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August 18, 2017

Brent Fields
Office of the Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

*Via email to rule-comments@sec.gov*

**Re: File No. PCAOB-2017-01**
**Request for Comment on Proposed Auditing Standard 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion***

Dear Mr. Fields:

This letter is submitted on behalf of the Financial Reporting Committee of the Association of the Bar of the City of New York. Our committee includes a diverse membership, whose areas of interest and expertise include financial reporting under the securities laws and the regulation of the U.S. capital markets.

We are responding to the request of the Securities and Exchange Commission for comment on the Public Company Accounting Oversight Board's ("PCAOB") proposed new Auditing Standard 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. We appreciate the Commission's consideration of these and other comments.

Our committee applauds the PCAOB's goal of making the auditor report more informative and relevant to investors and other financial statement users. However, we remain concerned that the proposed standard could have unintended consequences that diminish the usefulness of critical audit matter disclosures, chill communications between auditors and issuers and significantly increase costs to auditors and issuers. In particular, we are concerned about the following issues, which were raised by numerous commenters during the PCAOB's comment process:

*Original company information*

The proposed standard would require auditors to make original disclosures about an issuer's critical audit matters, which could include sensitive information about the issuer. We are concerned that this requirement would fundamentally change the role of the auditor in the disclosure process – from that of an attester to management disclosure to that of an author of original substantive disclosure. Responsibility for making sensitive disclosure judgments would be taken out of the hands of management and the audit committee and given to the outside auditor. As a practical matter, we expect that companies will be compelled to follow the lead of their auditors and include in their own disclosures any new information proposed to be included in the audit report, which could result in duplicative critical audit matter disclosures being provided to investors.

*Definition of critical audit matter*

The proposed standard defines a critical audit matter as any matter "arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective or complex auditor judgment." A number of commenters suggested modifying the materiality component of the definition such that a critical audit matter would itself have to be material to the financial statements taken as whole, rather than merely relate to an account or disclosure that is material to the financial statements. We share the concern of these commenters that the PCAOB's proposed definition is too broad and could require disclosure of immaterial matters that would not otherwise be disclosed by management. We disagree with the PCAOB's conclusion that the usefulness of the audit report will necessarily be improved if more matters meet the definition of critical audit matters, rather than fewer. An overly broad standard of materiality risks filling the audit report, and accompanying issuer disclosures, with extensive descriptions of immaterial audit matters, which would provide little benefit to investors and could be confusing to investors.

*Communications with auditors*

We share the concern expressed by many commenters that the proposed rules could chill communications between auditors, on the one hand, and audit committees and management, on the other. Audit committees and management may be more reluctant to engage in open and robust dialogue with auditors out of concern that such discussions could result in disclosure of sensitive information that may not be material to investors.

*Quality of disclosures*

We are concerned that disclosure of critical audit matters could become voluminous and boilerplate. Auditors may feel incentivized to include more, rather than fewer, critical audit matters, and, as noted above, issuers may feel the need to repeat discussions of critical audit matters in their own disclosures. We would also expect critical audit matter disclosures to overlap in many respects with critical accounting policy disclosures, which themselves are often duplicative and boilerplate.

*Increased costs to auditors and issuers*

We are concerned that the new standard could result in significant increased costs to both auditors and issuers. The required critical audit matter disclosures can be expected to increase the exposure of audit firms to private litigation. The new standard could lead to more meritless claims being asserted against audit firms and higher settlement costs. In addition, we would expect the new standard to result in both issuers and auditors spending more resources on the audit and disclosures processes. We are not convinced that the proposed benefits to investors outweigh these costs.

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We urge the Commission to give careful consideration to these issues before approving the PCAOB's proposed new audit standard. If the new standard is adopted in its proposed form, we would urge the Commission to work with the PCAOB to ensure that the standard is interpreted and implemented in ways that mitigate the concerns expressed above.

Finally, if the new standard is adopted, we would urge the Commission and the PCAOB to monitor and continue to evaluate the effectiveness of the standard. Chairman Clayton recently stated in his remarks at the Economic Club of New York on July 12, 2017 that, of eight principles that will guide his tenure, one is that "the Commission should review its rules retrospectively. We should listen to investors and others about where rules are, or are not, functioning as intended." Because of the costs associated with the new audit standard, we believe it is particularly important that the Commission continue to monitor whether it is functioning as intended.

We thank you for the opportunity to comment on this important Commission initiative. Members of our Committee would be happy to discuss any aspect of this letter with the Commission staff.

Respectfully submitted,

David S. Huntington

David S. Huntington, Chair
*Financial Reporting Committee*