September 8, 2015

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Re: File Number S7-13-15 Concerning Possible Revisions to Audit Committee Disclosures

Dear Mr. Fields, Chair White, and Commissioners:

Thank you for giving the National Association of Corporate Directors (NACD) an opportunity to comment on the SEC's Concept Release Concerning Possible Revisions to Audit Committee Disclosures, issued on July 1. NACD is the nation's oldest and largest organization for directors and boards—now more than 16,000 members strong. We convene, educate, and inform directors on a wide range of governance issues, including audit committee responsibilities. Since its founding in 1977, NACD has made numerous contributions to the audit field, including Blue Ribbon Commission reports, handbooks, reports, articles, webinars, and comment letters on audit-related topics.

NACD agrees with the concept release's fundamental premise that "audit committee reporting can and should be strengthened" (p. 20). Indeed, NACD is among the sources cited in support of this very point. The release also refers to "Enhancing the Audit Committee Report: A Call to Action," a white paper produced by the Audit Committee Collaboration, which comprises the Center for Audit Quality, NACD, and other corporate governance and policy organizations in the United States. NACD has long championed the cause of more meaningful disclosure for audit committees—notably in the 1999 *Report of the NACD Blue Ribbon Commission on the Audit Committee*, chaired by former SEC Commissioner A. A. Sommer Jr., as well as in a subsequent commission report that explored the same topic a decade later under the co-chairmanship of NACD board members Dennis R. Beresford and Michele Hooper, both experienced chairs of audit committees in major public companies.

While NACD acknowledges the need for improved reporting, it also believes that audit committee disclosures should be voluntary rather than mandatory. A growing number of proxy statement reports demonstrate clarity and creativity in conveying the hard work that audit committees do, including careful attention to independent auditor oversight and audit quality, tailored to the circumstances of individual companies for their owners. These reports are excellent examples of the private sector recognizing a need and moving smartly to define a response, obviating the need for a government/regulatory solution.

In this letter we express support for the goal of the concept release but ask that you note the following five concerns.

1. We question the value of increased mandatory audit committee disclosures in general.

The requirements for the audit committee report in the proxy statement already include a number of specified disclosures. While the reports may not fully reveal the work of these committees, the volume of matters listed in the concept release seems contrary to the goals of the SEC's own disclosure effectiveness initiative.

Information should be included in a proxy statement (or any other disclosure for that matter) *if and only if it would be useful to investors.* While some investors may be interested in learning much more about audit quality, this does not apply universally—the old saying is true: one size does *not* fit all. In our frequent meetings with institutional investors, we seldom hear requests for the information listed in questions 1–72 of the release. By contrast, some of the broader areas covered in questions 73 and 74 are of ongoing interest to at least some leading shareholders. At the most recent (November 2014) meeting we held to ascertain investor perspectives, the subject of audit was raised only tangentially, as a part of financial reporting. The main focal points for participants were internal controls, financial reporting, and risk management. We conclude from this evidence that investors are reasonably satisfied with the current state of external audit quality and with the audit committee's work overall, and so would not necessarily benefit from receiving more details about the audit committee's interaction with external auditors.

2. Oversight of audit quality is a means to an end: namely, the goal of high-quality financial reporting.

Oversight of the auditor is not an end in itself but rather a means to achieving financial reporting of the highest quality. The release is clearly focused on audit quality; 72 of its 74 questions are concerned with this subject. Certainly there is some justification for this emphasis. Audit quality is fundamental to the audit committee's financial reporting oversight role. Exemplary audit committees spend a good deal of "quality time" with the independent auditor and give serious attention not only to the selection and evaluation of the audit firm but also to the selection of key audit personnel, including the lead audit partner.

On the other hand, a mandate to make many disclosures about audit-firm engagement could give a misleading impression of how the audit committee spends its time by overemphasizing audit-related duties in relation to all other important duties. While the quality of external auditor work is important, it is not the only contributor to quality financial reporting. Other important participants in the financial reporting chain include internal auditors, financial executives, and the audit committee itself.

3. Audit committees have responsibilities beyond financial reporting oversight.

Audit committees today have embraced a broad oversight role that goes well beyond financial reporting oversight. Dennis Beresford, whose expertise we have mentioned earlier, makes this point among others in his recent comment letter on the concept release, which suggests that audit committees might "consider mentioning duties that readers might not associate with 'audit,' such as risk management, legal compliance, and information technology, where appropriate."

Financial reporting is only one of the responsibilities enumerated in the New York Stock Exchange's requirements for audit committee charters of listed companies. These additional responsibilities include assisting board oversight of the following matters: the integrity of the company's financial statements, company compliance with legal and regulatory requirements, the independent auditor's qualifications and impartiality, and the performance of the listed company's internal audit function and independent auditors. The committee is also expected to discuss policies with respect to risk assessment and risk management; to evaluate itself; and to make related reports to the SEC and to the board.

Moreover, many audit committees do not limit themselves to merely discussing risk: they often oversee it. The most recent *NACD Public Company Governance Survey* revealed that 48.2 percent of respondent boards allocate risk oversight to the audit committee. These oversight areas are not just compliance exercises; they have become integral to audit committee work. We know this to be the case because all of these subjects are discussed in depth at NACD's Audit Committee Chair Advisory Council meetings as well as other NACD events. On the basis of this experience, we believe that the disclosures explored in the concept release, because they focus so heavily on audit quality, would give an unbalanced picture of audit committee work.

Mandated disclosures about audit oversight or any other oversight area, even if acceptable to investors, may not be truly helpful to them. Audit committees are in the best position to determine which additional facts about their work will be helpful to shareholders, and they are already actively engaged in enhancing their communications along these lines.

4. Shareholders are relatively satisfied with the current state of audit quality.

Today's shareholders apparently appreciate the quality of audit committees. In the shareholder meetings that NACD has held in recent years, questions about audit quality have never arisen in general—much less to the degree implied by the questions in the release. Attendees at the spring 2014 meeting of NACD's Audit Committee Chair Advisory Council, when asked to identify top committee concerns, did not include audit quality in their responses. As one delegate remarked, "*We really haven't seen a headline problem in 10 years. Audit quality has steadily gotten stronger with Sarbanes–Oxley and more engaged audit committees.*" Another observed that "*the degree of audit committee engagement and the quality of audit committee communication with auditors has never been better*." Subsequent Advisory Council meetings have therefore focused on other concerns, such as cybersecurity.

Of the 533 shareholder proposals submitted to a vote so far in 2015 at the largest 250 U.S. public companies, only one has pertained to an audit committee—a proposal by John Chevedden at Citigroup to "Prohibit Bankruptcy History for Audit Committee Members." This proposal received just 1.06 percent of shareholder votes cast, according to proxy monitor.org.

Shareholders' apparent satisfaction with audit quality and with audit committee work reflects hard-earned improvement over recent years in both domains.

Auditors are already subject to a great deal of oversight through the Public Company Accounting Oversight Board (PCAOB). Moreover, they support a self-improvement vehicle through the Center for Audit Quality (CAQ), which devotes significant resources to the continuous improvement of the audit profession. Separately, NACD has worked with the CAQ and others to develop the External Auditor Assessment Tool (Audit Committee Collaboration, 2015), which is cited in the recent PCAOB concept release on audit quality indicators.

Audit committees themselves have been in a state of constant improvement. This trend can be traced to the end of the previous century, when both the New York Stock Exchange and NACD issued "Blue Ribbon" reports with recommendations that eventually became listing requirements. Over the past decade and a half, audit committees have continued to improve through both regulatory prompting and through private-sector initiatives such as the Audit Committee Chair Advisory Council and the Audit Committee Collaboration mentioned above.

5. Shareholders have more direct and more effective means for addressing concerns about audit committee performance.

When and if shareholders are unhappy with the work of audit committee members, they have numerous mechanisms through which to express their views. In addition to shareholder resolutions, there is majority voting. Nearly 90 percent of Fortune 500 companies currently have a majority vote standard according to a recent study by Institutional Shareholder Services. If shareholders are dissatisfied with an audit committee's work, they merely need to cast negative votes against the committee's individual members. Yet campaigns to vote audit committee members off the board are rare—in part because the large majority of audit committees today are doing their jobs and doing them well.

Conclusion

Audit committees are engaged in important work that they should describe more effectively to shareholders. As the concept release itself notes, at a June 2013 meeting of NACD's Audit Committee Chair Advisory Council, several delegates offered this candid acknowledgment: "*Frankly, we don't do a good job of communicating what we do. The public doesn't see all the work we do, quarter after quarter*."

Clearly, audit committees need to do more to communicate their valuable work across a wide spectrum of activities. The solution, however, does not lie in mandating a laundry list of disclosures about board-auditor relations. Increased voluntary disclosures and related communications are already showing results. Analysis from EY's Center for Board Matters concludes that "research shows a consistent movement by Fortune 100 companies to enhance the depth and scope of audit committee-related disclosures. Top companies are progressively supplementing mandatory disclosures with additional voluntary information sought by investors." We therefore believe that audit committees should respond to this concept release by finding new and voluntary ways of disclosing the broad scope of their work.

We invite the SEC to consider working with audit committee leaders to develop guidance on this form of voluntary disclosure, with a view toward further improving the quality of financial reporting. NACD would welcome the opportunity to convene such a meeting in order to accomplish this important task.

Sincerely,

Ken Daly, CEO

Peter R. Gleason, President

Dr. Reatha Clark King, Chair