

## COMMENT LETTER

May 15, 2019

# ICI Letter to PCAOB Recommending Changes to Audit Opinion (pdf)

April 26, 2019 William D. Duhnke III Chairman Public Company Accounting Oversight Board  
1666 K Street, N.W. Washington, DC 20006-2803 Re: AS 3101 and Identification of Financial Statement Periods in Investment Company Auditor Reports Dear Mr. Duhnke: The Investment Company Institute<sup>1</sup> is writing to urge the Board to act to improve auditor reports for investment companies. We believe recently effective requirements in AS 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, have caused certain investment company auditor reports to be unduly complex and diminished their utility. We recommend that the Board permit investment company auditors to use the prior practice when describing the date or period covered by the financial statements in their reports, as more fully described below. Investment Companies Investment companies often register with the SEC as a corporation or trust (e.g., the ABC Trust) and issue separate series of shares with each series representing a separate fund (e.g., the ABC Growth Fund, the ABC Value Fund, the ABC International Fund, etc.). Each individual fund issues its own financial statements. The financial statements for each individual fund are required to include the following: 1 The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US\$22.4 trillion in the United States, serving more than 100 million US shareholders, and US\$6.6 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in London, Hong Kong, and Washington, DC. • Statement of assets and liabilities – as of the most recent year-end date; • Schedule of investments – as of the most recent year-end date; • Statement of operations – for the year then ended or period then ended, if the fund has not operated for the full year; • Statement of cash flows, if not exempted by FASB ASC 230-10 – for the year then ended or period then ended, if the fund has not operated for the full year; • Statements of changes in net assets – for the most recent two years then ended, or period covered, if the fund has not operated for the full two years; • Financial highlights for each share class are required for the five years then ended, or period covered, if the fund has not operated for the full five years. These financial statements are often combined into one shareholder report book covering all the funds in the trust, and auditors issue one report covering all the funds included in the combined shareholder report book (i.e., multiple opinions are issued in one report). Historical Practice We note that prior to the recently effective requirements, the prior AS 3101 (i.e. AU Section 508), Reports on Audited Financial Statements contained

the following requirement (emphasis added): .08 The auditor's standard report identifies the financial statements audited in an opening (introductory) paragraph, describes the nature of an audit in a scope paragraph, and expresses the auditor's opinion in a separate opinion paragraph. The basic elements of the report are the following: a. A title that includes the word independent b. A statement that the financial statements identified in the report were audited[...] Under that standard, auditor reports may have referenced 1) the funds included within the shareholder report book; 2) the balance sheet and schedule of investments date for each of the funds; and 3) the dates for the remaining periodic statements (i.e., statement of operations, statements of changes in net assets, and statement of cash flows, if applicable) included on the financial statements themselves, rather than specifically identifying the period covered for each of the individual financial statements of each fund. For example, for the periodic statements, the auditor's report typically referenced the "periods indicated therein." Since the financial statements of the funds themselves included specific reference to the period(s) covered by each of the financial statements presented, we believe this practice effectively communicated the date of, or period covered by, the financial statements and related schedules included in the auditor's report without introducing undue complexity where the report covers multiple funds with different commencement (or closure) dates. Statement of Problem PCAOB AS 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion amended the language governing how the financial statements should be referenced to include the following (emphasis added): .08 The first section of the auditor's report must include the section title "Opinion on the Financial Statements" and the following elements: a. The name of the company whose financial statements were audited; b. A statement identifying each financial statement and any related schedule(s) that has been audited; c. The date of, or period covered by, each financial statement and related schedule, if applicable, identified in the report; Auditors have interpreted this change to require a clear statement within the auditor's report indicating the date of, or period covered by, each individual financial statement and related schedule. When the periods covered by each periodic financial statement of each fund included in the shareholder report book are identical, the requirement to identify the period covered by each periodic financial statement works well. However, in instances where the periods audited for each fund included in the shareholder report book vary due to differing commencement (or closure) dates, the report quickly becomes awkward and unwieldy. Under the new PCAOB standard, we believe the presentation of the many different dates is confusing to the reader and diminishes the overall utility of the report. At the very least, the plethora of dates distracts the reader's attention from other elements of the auditor's report. Fund sponsors regularly create new funds and those funds are typically organized as a new series added to an existing trust. Accordingly, we expect this problem to be recurring in nature. To comply with the new standard, some auditors have incorporated a table into their reports similar to the example presented below. While we have illustrated a relatively simple trust, it is not uncommon for reports to include financial statements for more than twenty funds which can add significantly to the length and complexity of the auditor's report. Example Report Excerpt We have audited the accompanying statements of assets and liabilities for each of the funds indicated in the table below comprising the XYZ Trust (hereafter, collectively referred to as the "Funds"), including the schedules of investments, as of June 30, 2018, and the related statements of operations, cash flows (as applicable), and changes in net assets as indicated in the table below, and the related notes (collectively referred to as the "financial statements"). We have also audited the financial highlights for each of the periods indicated therein. In our opinion, the financial statements present fairly, in all material respects, the financial position of each of the Funds as of June 30, 2018, and the results of each of their operations and cash flows (as applicable) and the changes in each of

their net assets for each of the periods indicated in the table below, and each of their financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles. Individual fund comprising the XYZ Trust Statement of operations Statement of cash flows Statements of changes in net assets Value Fund Leveraged Bond Fund For the year ended June 30, 2018 For the year ended June 30, 2018 (for the Leveraged Bond Fund only) For the years ended June 30, 2018 and 2017 International Fund For the year ended June 30, 2018 For the year ended June 30, 2018 For the year ended June 30, 2018 and the period from July 22, 2016 (commencement of operations) through June 30, 2017 Growth Fund For the year ended June 30, 2018 Not applicable For the year ended June 30, 2018 and the period from September 30, 2016 (commencement of operations) through June 30, 2017 Fixed Income Fund For the period from August 10, 2017 (commencement of operations) through June 30, 2018 Not applicable For the period from August 10, 2017 (commencement of operations) through June 30, 2018 Equity Fund For the period from February 15, 2018 (commencement of operations) through June 30, 2018 Not applicable For the period from February 15, 2018 (commencement of operations) through June 30, 2018 Recommendation We are not aware of any concerns raised by the users of these reports or the PCAOB related to the practice used under the Board's previous standard. In addition, we are not aware of any concerns raised during the PCAOB's standard setting process for AS 3101 related to the identification of the individual dates of the financial statements included in fund auditor reports. As a result, we believe this recent change in practice may have been an unintended consequence of changes to the PCAOB's previous standard. We recommend the Board consider permitting investment company auditors to comply with AS 3101.08(c) by referencing in their reports "the periods indicated therein" or similar language. The illustrative auditor's report in Attachment A reflects our recommendation. We believe it clearly communicates to users the periods covered by the financial statements that were audited in accordance with the underlying principles in the PCAOB's standards – both under AU Section 508 and AS 3101.08(c). Please contact me at 202/326-5851 or smith@ici.org if you have any questions or if we can provide additional information. Sincerely, Gregory M. Smith Senior Director - Fund Accounting & Compliance cc: J. Robert Brown, Jr. Board Member Duane M. DesParte, Board Member Kathleen M. Hamm, Board Member James Kaiser, Board Member Public Company Accounting Oversight Board Wesley Bricker, Chief Accountant, Office of the Chief Accountant Alison Staloch, Chief Accountant, Division of Investment Management US Securities and Exchange Commission Attachment A Report of Independent Registered Public Accounting Firm To the Shareholders of Value Fund, Leveraged Bond Fund, International Fund, Growth Fund, Fixed Income Fund and Equity Fund and the Board of Directors of XYZ Trust Opinions on the Financial Statements We have audited the accompanying statements of assets and liabilities of Value Fund, Leveraged Bond Fund, International Fund, Growth Fund, Fixed Income Fund and Equity Fund (six of the series comprising XYZ Trust (the "Trust"), hereafter, collectively referred to as the "Funds"), including the schedules of investments, as of June 30, 2019, and the related statements of operations, cash flows (as applicable), and changes in net assets and the related notes for each of the periods indicated therein (collectively referred to as the "financial statements"), and the financial highlights for each of the periods indicated therein. In our opinion, the financial statements present fairly, in all material respects, the financial position of Value Fund, Leveraged Bond Fund, International Fund, Growth Fund, Fixed Income Fund and Equity Fund as of June 30, 2019, and the results of their operations and cash flows (as applicable) and the changes in their net assets and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles. Basis for Opinions These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on each of the

Funds' financial statements and financial highlights based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned as of June 30, 2019, by correspondence with the custodian(s) and brokers or by other appropriate auditing procedures where replies from brokers were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. We believe that our audits provide a reasonable basis for our opinion. [Signature] We have served as the auditor of one or more XYZ Funds investment companies since 2008. [City and state or country] [Date]

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