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October 8, 2012

James Gunn
Technical Director
International Auditing and Assurance Standards Board

RE: Invitation to Comment: *Improving the Auditor's Report*

Mr. Gunn and Members of the Board:

BlackRock, Inc. ("BlackRock") appreciates the opportunity to comment on the Invitation to Comment: Improving the Auditor's Report ("ITC"). BlackRock is a global investment manager, overseeing $3.56 trillion of assets under management at June 30, 2012. BlackRock and its subsidiaries manage approximately 3,400 investment vehicles, including registered investment companies, hedge funds, private equity funds, exchange-traded funds and collective investment trusts, in addition to separate accounts. Certain of BlackRock's wholly-owned subsidiaries operate as U.S. registered broker/dealers, U.K. registered life insurance companies, a U.S. registered bank trust company and numerous investment advisory companies registered in jurisdictions throughout the world.

As an investment manager, BlackRock is in the position to provide commentary on the ITC from the perspectives of a) a corporate preparer, b) an investment fund preparer and c) a user (i.e., BlackRock's research analysts). As such, our comments take into account all three of these distinct perspectives.

<u>Overview</u>

The auditor's report currently includes a statement on the financial statements and periods covered, the scope of the audit, and a "binary" opinion as to whether such statements present fairly, in all material respects, the financial position and results of operations and cash flows of the company. The current reporting model does not provide additional context or insight around the audit or significant matters that the auditor may have addressed during the course of their audit. However, the current model does provide consistency, clarity of reporting and comparability and normally is taken in the context of other available information, including other disclosures accompanying the financial statements and management's oral and written communications.

We believe the auditors' report can be enhanced within a framework that ensures objective reporting, while maintaining the responsibility for preparers, rather than the auditor, to be the original source of information about a preparer. We applaud the International Auditing and Assurance Standards Board ("IAASB") for undertaking this project to enhance auditor communications and information useful to users of financial statements.

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The following comments are in response to certain of the questions set forth in the ITC.

1. **Overall, do you believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report, in view of possible impediments (including costs)? Why or why not?**

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We believe that certain of the IAASB's suggested improvements, noted below, will enhance the relevance and informational value of the auditor's report. The proposed format lends itself to international use, while enabling jurisdictions to tailor it to local regulatory and professional requirements.

3 Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not?

4 Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor Commentary?

The Auditor Commentary should be left to the judgment of the auditor, although guidelines should be provided in order to ensure that they convey more than the seldom-used emphasis of matter paragraphs under current reporting standards. We support an Auditor Commentary that encourages, but does not require, commentary on the following matters:

- Identification of areas of significant management judgment, that may involve external information or inputs in performing audit procedures on significant accounting estimates;
- Identification of significant new accounting principles and whether they are preferable in the context of authoritative and regulatory guidance;
- Identification of significant or unusual transactions, including significant related party transactions or restatements; and
- Matters of audit significance.

With respect to the aforementioned areas, we are concerned that it may be difficult to succinctly discuss in an auditor's report the full context of certain matters. As a result, it would be appropriate for the Auditor Commentary to refer to financial statement disclosures that provide the background in the context of the company's other policies and business. If those disclosures are adequate, minimal incremental discussion may be necessary. As users of financial statements, we find value in identifying significant matters, and auditor assurance that any changes in principles are preferable in the context of authoritative guidance. We also find value in identifying those areas that involve significant judgment, which therefore may require further analysis and discussion with management in order to be properly understood and reflected in analyst models.

We do not support auditor disclosure of information that would blur the responsibility of management to prepare financial information and of the auditor to perform audit procedures to determine the reasonableness of the financial statements taken as a whole. Similarly, management, and not the auditor, should provide any forward-looking information on the business. An Auditor Commentary should not be required if the auditor does not have any significant matters to communicate. This caveat is particularly important to entities with less complex financial reporting, such as most investment companies.

We do not support inclusion of auditor materiality thresholds, as such metrics involve a number of quantitative and qualitative considerations, including assessment of individual financial statement line items, disclosures in the context of the overall financial

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statements, and the level to which audit differences are a result of factual errors versus judgmental considerations involving estimates or assumptions or directional input factors.

5 Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary?

We do not believe that inclusion of audit procedures provides meaningful information to financial statement users. As noted above, we are concerned that it may be difficult to succinctly convey the nature of audit testing in a manner that provides the user with an understanding of the full scope of those procedures, and the quantitative and qualitative factors considered in reaching their decision.

6 What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and those charged with governance, the timing of financial statements, and costs?

Management should continue to have primary responsibility for the content of financial statements. We expect that additional Auditor Commentary disclosures proposed by the auditor will be reflected in the financial statements, thereby minimizing the impact of the Auditor Commentary. As a result, Auditor Commentary should not significantly implicate the roles of management and those charged with governance.

7 Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided?

Certain entities, such as investment companies, do not have the same level of complexity as many PIEs. The Auditor Commentary would not add value and may obfuscate the ultimate opinion being rendered by the auditor, particularly for less sophisticated readers of investment company financial statements.

8 What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not?

An entity should be presumed to be a going concern, which most entities are, unless otherwise indicated. A separate section in the auditor's report is not required when there are not material uncertainties about whether an entity is a going concern. To the extent that material uncertainties exist as to management's going concern assumption, we support additional clarification in the auditor's opinion, highlighting the specific factors that led to the auditor's conclusion. We would like to see the IAASB provide additional clarification for what constitutes a "material uncertainty." For example, would a general economic downturn or the weakening condition at a customer that already is widely known, and that could impact the preparer's financial condition, require auditor disclosure? In any case, a heightened attention to going concern over a longer future horizon than the customary one year period would benefit users.

9 What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgments and processes to support the auditor's statements that no material uncertainties have been identified?

The auditor should be permitted to refer to management disclosures that are more comprehensive than may be reasonably practical to include in an audit opinion. We would like to see further development and convergence on the joint FASB and IASB project on going concern to clarify and standardize management's role and disclosures, thereby hopefully minimizing the need for an auditor to be the primary provider of this information. Management and those charged with governance have the primary responsibility to prepare financial statements and to provide users with a "clear and complete picture of the entity and its operation, including financial results." The proposed guidance, if enacted, will encourage preparers to move information that may clarify going concern uncertainties, from unaudited "other information" to the audited footnotes. In such circumstances, it would be sufficient for the audit opinion to refer to the footnote without repeating such disclosures.

11 Do you believe the enhanced descriptions of the responsibilities of management, those charged with governance ("TCWG"), and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor's responsibilities?

12 What are your views on explicitly allowing the standardized material describing the auditor's responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor's report?

Inclusion of a section to clarify the responsibilities of management, those charged with governance, and the auditor, would provide a useful clarification. However, when taken together with the section to clarify the auditor's responsibility for other information, the disclosures would overwhelm the opinion and may detract from a focus on the more pertinent communications. We suggest further discussion of acceptable alternatives to placing these disclosures in the opinion, such as placement in a footnote, similar to the statutory requirement in some jurisdictions to disclose directors' responsibilities or the basis of preparation. While virtually all sophisticated investors have internet access, we do not believe this solution is an ideal forum to convey this information.

13 What are your views on the value and impediments of disclosing the name of the engagement partner?

We are ambivalent about identifying the engagement partyer by name in the audit opinion. We view the audit firm as responsible for the conduct of the audit, and understand the risks that unsophisticated readers of financial statement may hold an individual personally responsible for corporate matters beyond the scope of his or her responsibilities. We do not believe naming the signing partner will change their conduct, adherence to professional standards, or oversight of the engagement.

18 In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals?

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As noted above, certain entities, such as investment companies, do not have the same level of complexity as most PIEs. We recommend that such entities be excluded from the disclosures otherwise applicable to PIEs.

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We appreciate the opportunity to share our viewpoints on the ITC. If International Auditing and Assurance Standards Board has any questions regarding our comments, please contact Steven Buller at (212) 810-3501.

Sincerely,

Steven E. Buller
Managing Director