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October 13, 2016

Via e-mail: shazel@aicpa.org

Ms. Sherry Hazel
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: AICPA Auditing Standards Board Proposed Statement on Auditing Standards, *Auditor Involvement With Exempt Offering Documents*

Dear Ms. Hazel,

BDO USA, LLP appreciates the opportunity to provide comments on the AICPA Auditing Standards Board's Proposed Statement on Auditing Standards, *Auditor Involvement With Exempt Offering Documents* (the 'proposed SAS'). We support the development of the proposed SAS to address the industry specific auditing requirements that were previously set out in the AICPA Audit and Accounting Guides *State and Local Governments* and *Health Care Entities*, but which were revised or eliminated as part of the Auditing Standards Board's project to revise its standards for clarity.

Our comments regarding the issues posed in the Exposure Draft are set out below, followed by specific paragraph-level observations regarding the proposed SAS. When we suggest edits to specific paragraphs within the Proposed SAS, additions are set out in italic and deletions in strikethrough text.

Issue 1

Provide feedback on the types of offerings included in the scope of the standard, specifically whether franchise offerings should be included in the scope of the proposed SAS.

Paragraph 1 of the proposed SAS explains that the scope includes securities exempt from registration under the Securities Act of 1933, as amended, and franchise offerings regulated by the Federal Trade Commission. Except as discussed in our comments on paragraph 1 below, we believe the scope of the proposed SAS is appropriate and properly includes franchise offerings since the objective of the auditor when involved in a franchise offering is the same as when involved in exempt offerings. The objective in both circumstances is to perform procedures to determine whether information included in the offering document could undermine the credibility of the financial statements and the accompanying auditor's report.

Issue 2

Provide feedback on (a) whether you believe the activities that have been identified should trigger involvement and (b) whether additional activities should be considered as triggers for involvement.



Ms. Sherry Hazel
American Institute of Certified Public Accountants
Page 2 of 3

We understand that the seven activities listed in paragraph 8. *b.* of the proposed SAS are based on long-standing industry guidance regarding the auditor's professional responsibilities in connection with municipal securities offerings, and we agree they are the appropriate triggers.

Issue 3

Provide your views regarding the proposed requirement for subsequent event procedures to be performed when the auditor is deemed involved with an exempt offering document.

We believe that the auditor should be required to perform subsequent event procedures to determine if any material events occurred subsequent to the report date that could undermine the credibility of the audited financial statements or interim financial information and the auditor's report thereon. We recognize that some have argued that given the absence of a regulatory requirement for subsequent event procedures, the auditor's decision whether to perform such procedures is a risk management decision. However, while there may not be a regulatory requirement to evaluate the impact of subsequent events on financial statements included in exempt offerings, we believe certain required minimum procedures are essential to ensure the quality of auditor reporting is consistent across all exempt offerings.

Paragraph-level Observations

Paragraph 1 refers to the auditor's report on the financial statements or the auditor's review report on interim financial information of an entity. To clarify that this guidance applies solely to non-issuers, we suggest adding the word 'non-issuer' before the word 'entity' in part *a* of the paragraph. As a result, paragraph 1. *a.* would read as follows:

The auditor's report on financial statements or the auditor's review report on interim financial information of a *non-issuer* entity is included or incorporated by reference in an offering document relating to...

Furthermore, we note that paragraph 1. *a. i.* refers to securities exempt from registration under the Securities Act of 1933, however, we believe the term 'offerings' should be included in the sentence since we understand that 'offerings' (not securities) are registered under the Securities Act. Accordingly, we suggest revising this sentence as follows:

Offerings of securities exempt from registration under the Securities Act of 1933...

Paragraph 9 explains that when the auditor is involved with the offering document, the auditor should perform certain procedures at or shortly before the date of distribution, circulation, or submission of the offering document, *and as appropriate* [emphasis added], upon any subsequent distribution, circulation or submission of the offering document. However, it is unclear how the auditor is expected to determine the appropriate procedures to be performed on subsequent iterations of the exempt offering based on the phrase 'as appropriate.' We suggest providing an example of how the requirement in paragraph 9 is expected to be implemented.



Ms. Sherry Hazel
American Institute of Certified Public Accountants
Page 3 of 3

To clarify its meaning, we believe paragraph 11 should be revised as:

When performing the procedures required by paragraph 10, the auditor should determine that the auditor's name is *used in a manner consistent with the procedures performed and responsibility being assumed* ~~not being used in a way that indicates that the auditor's responsibility is greater than the auditor intends.~~

Footnote 2 to paragraph 12 refers to AU-C 560, *Subsequent Events and Subsequently Discovered Facts* (AU-C 560), paragraphs .09-.10. However, the guidance that relates to paragraph 12.*b.* appears to be derived from AU-C 560 paragraph 13.*b.* and, as such, we suggest including this additional reference in the footnote.

We suggest deleting application paragraphs .A11 and .A12 as it is our understanding that the external legal counsel letters are only applicable in registered offerings subject to Section 11 of the Securities Act. We support retaining the reference to AU-C 920, *Letters for Underwriters and Certain Other Requesting Parties*, at the end of paragraph .A10 as we believe this provides sufficient application guidance to the requirement in paragraph 8.*b.iii.*

Application guidance paragraph .A13 explains that 'Auditors use professional judgment in determining whether to participate in oral due diligence meetings if the underwriter has not provided the representation letter described in paragraph .A11 or if external legal counsel has not provided the required written opinion.' We suggest striking the last part of the sentence that states 'described in paragraph .A11 or if external legal counsel has not provided the required written opinion' from paragraph .A13 to align with the revision we suggest to paragraphs .A11 and .A12.

We appreciate your consideration of our comments, and would be pleased to discuss these with you at your convenience. Please direct any questions to Susan Lister, National Director of Auditing, at 212-885-8375 (slister@bdo.com), or Jan Herringer, National Assurance Partner, at 732-734-3010 (jherringer@bdo.com).

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP