

September 26, 2011



Office of the Secretary
PCAOB
1666 K Street, NW
Washington, D. C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 34

Ladies and Gentlemen:

The AES Corporation
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Introductory Comments

The AES Corporation (NYSE:AES) is a Fortune 200 global power company with generation and distribution businesses. Through our diverse portfolio of thermal and renewable fuel sources, we provide affordable and sustainable energy to 28 countries. Our workforce of 29,000 people is committed to operational excellence and meeting the world's changing power needs. Our 2010 revenue was \$17 billion and we own and manage \$41 billion in total assets.

Following the passage of the Sarbanes Oxley Act of 2002, AES went through significant changes and efforts to improve our controls, processes and reporting to investors. Management and our Board have been very supportive of the required changes and have fostered an environment which strongly supports and reinforces the importance of the auditor's role.

The recent financial crisis in the United States may lead some to suggest additional regulatory action is required around the conduct of audits and disclosures in financial statements. However, there have been no regulatory findings or enforcement actions that would suggest that the financial crisis could have been avoided by expanded audit scope and disclosure. It would be unreasonable to expect audit firms to have the ability to tame market exuberance or to predict market bubbles. This goes well beyond the role of an audit. To attempt to protect investors from any negative market action or reaction is not reasonable, realistic or cost effective.

However, we support efforts which will strengthen the quality of management reporting and the conduct of audits. We feel strongly that any future changes to the financial reporting requirements must be supported by improvements that have a tangible value to investors and users of the financial statements in order to justify the additional cost and other burdens required to provide them.

In addition we believe that any new information that would be provided to an investor as contemplated by some of the suggestions made by the PCAOB should not result in conflicting messages that would lead to investor confusion. We also feel it is in the investors' best interests for the roles of management, the Audit Committee and the auditor to be clearly defined and we are concerned that the proposed changes would blur those roles. We agree with the Center for Audit Quality that auditors should not be

the original source of disclosure about the entity; management's responsibility should be preserved in this regard.

We appreciate the opportunity to provide a response to the Concept Release and provide the following responses to selected questions, which we hope you find helpful.

Responses to Selected Questions

- 1. Many have suggested that the auditor's report, and in some cases, the auditor's role, should be expanded so that it is more relevant and useful to investors and other users of financial statements.**
 - a. Should the Board undertake a standard-setting initiative to consider improvements to the auditor's report model? Why or why not?**
 - b. In what ways, if any, could the standard auditor's report or other auditor reporting be improved to provide more relevant and useful information to investors and other users of financial statements?**
 - c. Should the Board consider expanding the auditor's role to provide assurance on matters in addition to the financial statements? If so, in what other areas of financial reporting should auditors provide assurance? If not, why not?**

Company's Response

As discussed in the Concept Release, the auditor's role and report have evolved over time in response to investor needs in changing economic and legal environments. The most recent change was in response to instances of significant accounting fraud and inadequate audit detection which resulted in the passage of the Sarbanes-Oxley Act of 2002 ("the Act"). The Act drove a new form of governance within companies, a stronger focus on internal controls, a heightened focus on the accuracy of financial reporting, and an increased prominence in the role of the Audit Committee, which was charged with oversight of the auditor and the company's financial reporting. It also established the PCAOB and drove a significant expansion in the role and conduct of the auditor by requiring them to report on internal controls, expand disclosure and communication with the Audit Committee, and develop a more independent relationship with management. Our company has spent many millions in the implementation of the Act on processes, systems, people and increased audit fees. Many of these costs are ongoing.

Although the language in the auditor's opinion on the financial statements did not change, the conduct of the auditor has changed and expanded significantly. So has the quality and reliability of companies' financial statements, governance processes, and control systems. In evaluating a response to the question these changes should be put into context. In our opinion, expanding the mandated role of the auditor to require auditor's discussion and analysis is neither warranted nor appropriate. Expansion of the auditors' role as being considered by this Concept Release would effectively put the auditors in the role of management, significantly minimize the responsibility of the

Audit Committee and shift additional risk to the audit firms which would translate into significantly increased costs for companies and their shareholders.

We do however, support changes to the auditor's report that would provide additional clarity on the existing roles and responsibilities of the auditor, the Audit Committee and management, and that expand on the definition of certain concepts and terms. This could include the terms such as "reasonable assurance", "material misstatement", and "materiality". We believe additional clarity would further educate investors which would help minimize the expectation gap.

2. **The standard auditor's report on the financial statements contains an opinion about whether the financial statements present fairly, in all material respects, the financial condition, results of operations, and cash flows in conformity with the applicable financial reporting framework. This type of approach is sometimes referred to as a "pass/fail model."**
 - a. **Should the auditor's report retain the pass/fail model? If so, why?**
 - b. **If not, what changes are needed?**
 - c. **If the pass/fail model were retained, are there changes to the report or supplemental reporting that would be beneficial? If so, describe such changes or supplemental reporting.**

Company's Response

We believe the auditor's report should retain the pass/fail model. The complexities of accounting standards require many judgments which a company must evaluate and consider in formulating its position. The auditor's role is to challenge those judgments and ultimately determine if management had a reasonable basis for their conclusion as well as to determine whether, in their opinion, the company's financial statements are fairly presented in accordance with US GAAP. If the auditor does not agree there is a reasonable basis for the company's conclusion, the auditor's report is modified to note the affect of the issue on the auditor's opinion on the financial statements taken as a whole. When these situations arise, the company, the auditor and the Audit Committee actively engage in discussions to work through the issues and typically reconcile and remediate views such that modifications to the report are not needed. However, ultimately the auditor has final say in the audit report. The auditor either agrees that the judgments made by management are reasonable and that the accounting records are accurate or not. We believe that the auditor's conclusion as to whether the financial statements, taken as a whole, are presented in accordance with US GAAP is of significant value to investors. An approach other than the pass/fail model would put the investor in the position of evaluating judgments made without having the benefit of the context, facts and circumstances due to the significant dialogue that exists between the auditor, Audit Committee and the company. Investors do not have the benefit of that dialogue and no opportunity to resolve questions directly with the auditors; doing so would further increase the complexity of disclosure and communication requirements. Arguably, as more fully explained in our response to the other alternatives, we believe that moving away from the pass/fail model of auditor report has the potential to dilute

the value the auditor's report and the financial statements rather than enhance it to investors.

3. **Some preparers and audit committee members have indicated that additional information about the company's financial statements should be provided by them, not the auditor. Who is most appropriate (e.g. management, the audit committee, or the auditor) to provide additional information regarding the company's financial statements to financial statement users? Provide an explanation as to why.**

Company's Response

We believe it is management's responsibility and that management is most appropriate to provide additional information regarding the company's financial statements to financial statement users. The Audit Committee's role is to assure that the proper governance is in place to allow timely and accurate financial reporting. The auditor's role is to conduct procedures to allow them to provide assurance that the financial statements are fairly represented, including the adequacy and appropriateness of disclosures. But, it is only management, who has the best understanding of the business and what drivers impact the business, that can best anticipate and satisfy the informational needs of the investors and other financial statement users.

4. **Some changes to the standard auditor's report could result in the need for amendments to the report on internal control over financial reporting, as required by Auditing Standard No. 5. If amendments were made to the auditor's report on internal control over financial reporting, what should they be, and why are they necessary?**

Company's Response

We do not believe changes should be made to the auditor's report on internal control over financial reporting. However, we would support changes to the report on internal control over financial reporting that would provide additional clarity on the role and responsibilities of the auditor, the Audit Committee and management, and that expand on the definition of certain concepts and terms.

5. **Should the Board consider an AD&A as an alternative for providing additional information on the auditor's report?**
 - a. **If you support an AD&A as an alternative, provide an explanation as to why.**
 - b. **Do you think an AD&A should comment on the audit, the company's financial statements or both? Provide an explanation as to why. Should the AD&A comment about any other information?**
 - c. **What types of information in an AD&A would be most relevant and useful in making investment decisions. How would such information be used?**
 - d. **If you do not support an AD&A as an alternative, explain why.**

- e. Are there alternatives other than an AD&A where the auditor could comment on the audit, the company's financial statements, or both? What are they?**

Company's Response

No. We do not believe the Board should consider an AD&A or other alternatives to an AD&A for providing additional information in the auditor's report. We believe it exceeds the role and scope of an audit and would not be appropriate for the auditor to provide a narrative format of his or her views regarding significant matters, management's judgments and estimates, accounting policies and practices, and difficult or contentious issues about the audit.

Investors expect and SEC regulations already require management to disclose information about significant transactions, critical accounting policies and estimates in SEC periodic reports. It would place the auditor in the role of management who should be properly disclosing those matters in MD&A and the notes to the financial statements or otherwise resolving them with the auditor. It is also the responsibility of the auditor to communicate and provide input to the Audit Committee on these items so they can independently assess if management has provided sufficient and proper disclosure.

We do not believe that having the auditor provide separate information about the audit, audit procedures and results, and auditor independence would be useful to investors. We believe that this would undermine the credibility and usefulness of the auditor's report on the financial statements. Investors would be put in the position of interpreting the information without full context or understanding of all the facts. Auditors are hired to provide an independent opinion on the company's financial statements and ultimately make the final judgment. This responsibility should not be diluted or opened up for second guessing.

In addition, the level of auditor effort that would be required for the auditors to draft, discuss and review with management would be excessive and cost prohibitive with questionable benefits to be derived. It would put further pressure on already tight filing timelines. Because of the additional risk it would place on the auditor, they will respond by incurring more time leading to more fees which may produce results of questionable value to investors.

- 9. Some investors suggested that, in addition to audit risk, an AD&A should include a discussion of other risks, such as business risks, strategic risks, or operational risks. Discussion of risks other than audit risk would require an expansion of the auditor's current responsibilities. What are the potential benefits and shortcomings of including such risks in an AD&A?**

Company's Response

This question suggests that companies' current disclosures are not adequate. If so, additional disclosures should be required. Management has the responsibility to

provide the information that satisfies US GAAP disclosure requirements, while the auditors have the responsibility to evaluate that the financial statements contain sufficient disclosure in accordance with US GAAP disclosure requirements. Outside of the financial statements, management has the responsibility to provide information as required by the SEC which the auditors review to make sure there are no material misstatements of fact or inconsistencies with the financial statements.

We do not believe that there would be benefit from changing the respective roles of the FASB, SEC, management or the auditors in determining and providing required disclosures. Further, the expansion of the auditor's responsibilities into areas outside the fair presentation of the financial statements could be time consuming and costly as they would need to get more involved in the operations of the business and make judgments about decisions being made by management. Investors expect management with the requisite knowledge of the business and the factors influencing the business to provide a meaningful discussion of these risks. For the reasons outlined in the response to question 5, we do not believe auditor's responsibilities should be extended beyond those currently in place.

10. How can boilerplate language be avoided in an AD&A while providing consistency among such reports?

Company's Response

Given the broad proposed scope of an AD&A, the risk to the auditor will increase significantly. They will need to manage this risk as effectively as possible, which will lead to Audit Firm guidelines and strict quality control that will naturally lead to a more boilerplate "checklist" approach, which seems to conflict with the spirit of the suggestion. In addition, as this occurs the perceived value to the investor will diminish, however, the costs (time and money) to comply will continue.

Investors rely upon consistency of financial terms and calculated metrics in order to prepare accurate analysis and recommendations. If auditor discussions and disclosures lack common terms and metrics, investors will need to be provided an avenue to permit questioning of auditors. Investors do not have the benefit of the significant dialogue that exists between the auditor, Audit Committee and the company and no opportunity to resolve questions directly with the auditors. This will require yet another process to further complicate, and potentially confuse, communication with investors. Moving away from standards has the potential to dilute the value of the auditor's report and the financial statements rather than enhance it to investors.

11. What are your views regarding the potential for an AD&A to present inconsistent or competing information between the auditor and management? What effect will this have on management's financial statement presentation?

Company's Response

Although the potential exists for an AD&A to present inconsistent or competing information between the auditor and management, we expect most companies would be

very diligent to discuss and resolve such differences prior to issuing the financial statements. A company's goal is to provide financial statements that are fairly presented in accordance with US GAAP and that comply with SEC regulations. Any suggestion to the contrary by the auditors would need to be resolved; otherwise the credibility of the financial statements would be in question. The time and effort associated with reconciling the disclosure could be extensive for little net benefit. Since investors would not have access to this reconciliation process, and since the end result of these efforts would be auditor disclosures that were consistent with those provided by the company, the value of an AD&A would be diminished and lack value to investors.

14. Should the Board consider a requirement to include areas of emphasis in each audit report, together with related key audit procedures?

- a. **If you support required and expanded emphasis paragraphs as an alternative, provide an explanation as to why.**
- b. **If you do not support required and expanded emphasis paragraphs as an alternative, provide an explanation as to why.**

Company's Response

Although we do not believe it is necessary, we do not oppose the inclusion of emphasis paragraphs in the auditor's report to highlight the most significant matters in the financial statements with a reference to where these items are disclosed in the financial statements. However, we do not believe this discussion should deviate or expand on the company's disclosure. It should be a very objective statement serving to highlight matters of significance to a reader. If the auditor does not consider the company's disclosure adequate, it should be resolved with management and, if need be, the Audit Committee prior to the release of the financial statements.

17. How can boilerplate language be avoided in required emphasis paragraphs while providing consistency among such audit reports?

Company's Response

For the reasons discussed in response to question 10, it will be difficult to eliminate some level of boilerplate. Audit Firms will need to manage the additional risk associated with determining which items should be considered for emphasis which could lead to an emphasis paragraph on any item that could be of potential interest to an investor. As a result, there will be a risk of the emphasis paragraphs being over used leading to diminished value.

18. What are the potential benefits and shortcomings of implementing required and expanded emphasis paragraphs?

Company's Response

The potential downside to this requirement is that due to the additional risk to the auditor from being required to make this judgment, the areas of emphasis could be lengthy and voluminous. In that case, the benefit to investors' of this section to the

auditor's report would diminish as it becomes a laundry list of every disclosure that could have an interest to any reader of the financial statements.

19. Should the Board consider auditor assurance on other information outside the financial statements as an alternative for enhancing the auditor's reporting model?

- **If you support auditor assurance on other information outside the financial statements as an alternative, provide an explanation as to why.**
- **On what information should the auditor provide assurance (e.g., MD&A, earnings releases, non-GAAP information, or other matters)? Provide an explanation as to why.**
- **What level of assurance would be most appropriate for the auditor to provide on information outside the financial statements?**
- **If the auditor were to provide assurance on a portion or portions of the MD&A, what portion or portions would be most appropriate and why?**
- **Would auditor reporting on a portion or portions of the MD&A affect the nature of MD&A disclosures? If so, how?**
- **Are the requirements in the Board's attestation standard, AT sec. 701, sufficient to provide the appropriate level of auditor assurance on other information outside the financial statements? If not, what other requirements should be considered?**
- **If you do not support auditor assurance on other information outside the financial statements, provide an explanation as to why.**

Company's Response

We recommend a cost and benefit analysis to determine if expanding the auditor's report to provide assurance on other information outside the financial statements would be warranted. Requiring the auditor to provide such assurance is not objectionable however it will result in higher audit fees for companies with no clear "return". To justify the cost there would need to be evidence that the lack of auditor assurance has resulted in misleading information being provided by companies that has led to shareholder losses. Absent such a correlation it would be difficult to justify adding this cost, especially considering auditors already review management's disclosures outside the financial statements as part of their audit process for any inconsistencies with the underlying financial statements.

The other challenge would be the highly judgmental nature of discussions outside of the financial statements. By design, many of these sections are intended to provide management's view of the company and its operations. If assurance were to be required, the SEC would need to provide much more prescriptive guidance on its content to provide audit firms a basis to determine if the company had correctly applied the standard. We believe this could lead to less meaningful disclosure for investors and more boilerplate language.

Finally, in addition to the cost element of expanding the areas of audit assurance, the time element would also be expanded. Filing deadlines are already very tight and adding another step to the process could result in delayed filings.

- 21. The concept release presents suggestions on how to clarify the auditor's report in the following areas:**
- Reasonable assurance
 - Auditor's responsibility for fraud
 - Auditor's responsibility for financial statement disclosures
 - Management's responsibility for the preparation of financial statements
 - Auditor independence
- a. Do you believe some or all of these clarifications are appropriate? If so, explain which of these clarifications is appropriate? How should the auditor's report be clarified?
 - b. Would these potential clarifications serve to enhance the auditor's report and help readers understand the auditor's report and the auditor's responsibilities? Provide an explanation as to why or why not.
 - c. What other clarifications or improvements to the auditor's reporting model can be made to better communicate the nature of an audit and the auditor's responsibilities?
 - d. What are the implications to the scope of the audit, or the auditor's responsibilities, resulting from the foregoing clarifications?

Company's Response

Any steps that can be taken to further educate and clarify the responsibilities of management and the auditor would be positive changes. We believe most investors do not read auditor's reports today other than to verify there is an unqualified opinion and that no matters of emphasis are noted. As pointed out in the Concept Release, there has not been a change to the auditor's report for a long period of time, so investors may not be as compelled to read it. We believe additional clarity would further educate investors which would help minimize the expectation gap.

- 22. What are the potential benefits and shortcomings of providing clarifications of the language in the standard auditor's report?**

Company's Response

The only shortcoming of providing clarifications of the language is its benefits may be short-lived when investors again begin to view the report as boilerplate. However, the ongoing educational benefit for new investors could support its inclusion.

- 23. This concept release presents several alternatives intended to improve auditor communication to the users of financial statements through the auditor's reporting model. Which alternative is appropriate and why?**

Company's Response

We do not believe the first alternative to require the auditor to provide AD&A disclosure is appropriate or useful to investors. If additional information is needed by investors to make informed decisions, management should be providing this information. The second alternative, expanded use of emphasis paragraphs would be of questionable value to investors. Due to the increased audit risk, the use of emphasis paragraphs could very easily expand to include a laundry list of topics resulting in limited value to investors. For the third alternative it would be necessary to demonstrate a strong benefit to support the cost associated with the requirement for the auditor to report on information outside the financial statements. It would also require more prescriptive guidance from the SEC on the content of the information to allow auditors to determine if the company has correctly applied the standard. However, the fourth alternative to clarify certain language in the auditor's report would be acceptable and could be helpful.

27. Would financial statement users perceive any of these alternatives as providing a qualified or piecemeal opinion? If so, what steps could the Board take to mitigate this perception?

Company's Response

We believe the risk that a financial statement user would perceive any of these alternatives as providing a qualified or piecemeal opinion as low. With proper language and education programs this risk should be easily mitigated.

29. What affect would the various alternatives have on audit quality? What is the basis for your view?

Company's Response

We believe audit quality under alternative four would remain high but would not drive significant changes to the audit approach. Further clarification would be for the benefit of the financial statement users to better understand the responsibilities of management and the auditors, and to better manage their expectations about the scope and limitations of audits.

Audit quality under the other three alternatives would put auditors under significant strain that could reduce their effectiveness. Assuming the timing for filing financial statements stays the same, auditors would be required to get significantly more work done in a limited time period. This will lead to larger audit teams which will require greater coordination and management. It would also require greater effort from companies accounting staff to provide the support and respond to the inquiries of the auditors.

32. The concept release discusses the potential effects that providing additional information in the auditor's report could have on relationships among the auditor, management, and the audit committee. If the auditor were to include in the auditor's report information regarding the company's financial

statements, what potential effects could that have on the interaction among the auditor, management, and the audit committee?

Company's Response

As discussed previously, expansion of the auditor's role and methods of communication could lead to a blurring of the lines between the roles of management, the Audit Committee and the auditor. Any steps taken to enhance a financial statement users understanding of each of the respective roles would be beneficial. However, to have the auditor take responsibility for communicating information to financial statement users in addition to management could result in conflicting information that the financial statement user is not in a position to evaluate correctly. More likely, communications made by the auditor would conform to management's discussion yielding no benefit to the financial statement user, but it would drive increased costs to shareholders.

Closing Comments

The PCAOB is to be commended for continuing to evaluate how to assure that investors and other financial statement users are being best served by the audit function. It is critical however that any such considerations be mindful of the purpose of an audit as well as the respective roles and responsibilities of management, the Audit Committee and the auditor. There also needs to be consideration of the costs and benefits to be achieved from any changes. Evidence should be collected and evaluated to determine if there are clear tangible benefits investors and other financial statement users would receive and if it would allow them to make better decisions about investments and a company's performance. Current accounting and SEC standards require extensive disclosures with a clear outlook to expand disclosures even further with current convergence and other projects. If such disclosures are not providing the information investors need to evaluate a company's performance, it is the role of the investment community to prompt management to provide additional disclosures, rather than the PCAOB require auditors to add their own disclosures. It is management's responsibility to provide investors and other financial statement users with the appropriate information in accordance with generally accepted accounting principles and SEC requirements and audit firms should continue to provide an independent conclusion as to the accuracy and completeness of such disclosures.

The auditor's professional responsibilities and management's conduct have changed significantly since the introduction of the Act and the establishment of the PCAOB. These changes were in response to significant shortcomings that existed in the conduct of management and auditors over accounting and financial reporting. Such changes have led to tangible enhancements in the entire process from which investors and other financial statement users should have benefited. Many of the changes being suggested in the Concept Release would drive another "seismic shift" that could be on the scale of the Act, but without the same level of benefits. We do not believe this would be in the best interest of users of the financial statements and especially not in the best interest of shareholders.

We appreciate the opportunity to provide comments on certain elements of the Concept Release and we look forward to your further deliberations.

Respectfully yours,

The AES Corporation

A handwritten signature in black ink, appearing to read "Vic Harker". The signature is written in a cursive style with a large initial "V" and a long horizontal stroke at the end.

Victoria D. Harker
Executive Vice President and Chief Financial Officer