



December 11, 2013

Public Company Accounting Oversight Board  
Attention: Office of the Secretary  
1666 K Street, NW  
Washington, DC 20006-2803

**RE: PCAOB Rulemaking Docket Matter No. 034**

Members of the Board:

Costco Wholesale Corporation (Costco) appreciates the opportunity to comment on *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* and *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report* (together, the Proposed Standards).

Costco operates an international chain of membership warehouses that carry quality, brand-name and private-label merchandise at lower prices than are typically found at conventional wholesale or retail sources. Costco currently has approximately 71 million members, and we operate 648 warehouses in the United States and Puerto Rico, Canada, Mexico, the United Kingdom, Japan, Taiwan, Korea and Australia, employing approximately 185,000 full and part-time employees. In fiscal 2013, we reported total revenue of \$105 billion and net income of \$2 billion. Our stock trades on the NASDAQ Global Select Market under the symbol "COST."

A fundamental tenet of financial reporting and generally accepted accounting principles (GAAP) in the United States is that the financial statements and related disclosures are the responsibility of management; the auditor's role is to express an opinion on whether such financial statements are fairly presented, in all material respects, in conformity with GAAP. Costco strives to provide timely, relevant, thorough and transparent financial reporting to our investors. We, including the members of our Audit Committee, take this responsibility very seriously and continually seek to ensure that our investors have the appropriate insights into our business, the key metrics that measure the health of our operations, and the information necessary to make informed investing decisions. We believe that the Proposed Standards, specifically the reporting of "Critical Audit Matters" and the requirement of the auditor to "evaluate" other information contained in a company's annual filings, represent an undesirable change to existing principles. These elements of the Proposed Standards should not be adopted.

## **Critical Audit Matters**

Our Audit Committee takes very seriously its role and responsibility of reviewing and understanding the critical accounting policies, judgments, and estimates. Our auditors review their audit plan with the Committee and, together with management, they assess risk, design appropriate audit procedures, and communicate final results. We believe that the responsibility and review of such matters and related conclusions lies with management and the Audit Committee.

We do not agree that requiring auditors publicly to communicate “Critical Audit Matters” (CAM) would help investors and other financial statement users. Items that would likely be considered CAMs are often complex in nature and can require extensive background information and context to evaluate. We believe that disclosure of CAMs will increase confusion, speculation and could result in investors drawing incorrect conclusions. Variability in the quantity and extent of CAMs in a registrant’s audit opinion relative to other similar filers may cause investors to draw inappropriate conclusions regarding audit quality, earnings quality, and level of assurance provided by the audit opinion. An audit opinion containing a larger number of CAMs could result in the incorrect perception that the underlying audit was somehow more robust or that alternatively, although an unqualified opinion was reached, the auditor had concerns regarding the quality of the financial statements. In reality, a larger number of CAMs may have been driven by the views taken by a particular audit engagement team in the selection of matters to disclose as CAMs or the complexity surrounding certain audit areas. To the extent that the complex areas are material, the policy and judgments would already be disclosed by the registrant under current requirements. Should the drivers behind a particular CAM be attributable to a deficiency in combination with other factors, the discussion of such a deficiency or deficiencies, which did not reach the level of a material weakness, would not otherwise be required to be disclosed by existing SEC rules. Discussion of deficiencies may also confuse readers regarding the quality of the control environment, when an otherwise clean internal control audit opinion was issued by the audit firm. Furthermore, although the Proposed Standards maintain the current requirement for auditors to issue an opinion on the financial statements as a whole, discussion of such CAMs may give the illusion that other levels of assurance are being provided on those items.

We believe that the responsibility of reducing what the Proposed Standards refer to as “information asymmetry” is that of management through improved disclosure; not the responsibility of the auditors. We continuously review our critical accounting policy disclosures to ensure that we are providing the readers of our financial statements with the information helpful to understanding and evaluating our financial performance.

In our research and consideration of these Proposed Standards, we evaluated the items included in the final Audit Committee communication from our auditors as a sample of potential CAMs. We compared those items to disclosures contained in our critical accounting policies and footnotes. We believe that the information provided in these disclosures was complete and transparent in providing our readers the necessary information to understand these matters. In our opinion, the disclosure of CAMs in the audit opinion would be redundant with what we provided in our existing disclosures, which are already audited and covered by the audit report.

We are concerned that if auditors are required to disclose CAMs, they could be inclined to err on the conservative side and “over disclose” items, in an effort to avoid being second guessed. This will lead to additional burdensome disclosure overload, which preparers and investors are already facing, and which the FASB is currently working to address.

We believe that the additional disclosure requirements related to CAMs would significantly increase the time required at the final stages of the audit for the determination, drafting and review of CAMs, thereby reducing the timeliness of our reporting, while also increasing audit fees, with no countervailing benefit to shareholders.

### **Auditor’s Responsibility for Other Information**

We believe that the expertise of the auditor is related to the audit of the company’s financial statements and related footnotes, and that is where their focus should remain. The current audit opinion states clearly that the audit covers the financial statements and the related footnotes. We do not believe that investors think that auditors have responsibilities for disclosures beyond the financial statements and the footnotes. Nor do we believe that modifying the PCAOB rules to require auditors to “evaluate,” instead of the current “read and consider” requirement, will increase the quality of the other information reported by registrants.

The Proposed Standard increases the auditor’s responsibility for other information in filings by requiring the auditor to “evaluate” the other information contained in the filing. We believe that the current “read and consider” expectation is clear and appropriate and any marginal additional work performed by the auditor as a result of the Proposed Standards would not materially alter the other information reported. We believe it is management’s responsibility to ensure that information discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and other sections is materially correct and consistent with the information contained in the financial statements and footnotes. We appreciate the current reading that our auditors perform on the other sections in our filings, such as MD&A, and thoughtfully consider and address all comments they provide us.

Increasing the requirement to “evaluate” the other information is unnecessary and any perceived benefit would not outweigh the additional time and costs incurred, which could be substantial.

In summary, we do not believe that the Proposed Standards regarding the disclosure of Critical Accounting Matters and the expansion of the auditors responsibility to information outside the financial statements and footnotes should be adopted.

### **Auditor Independence**

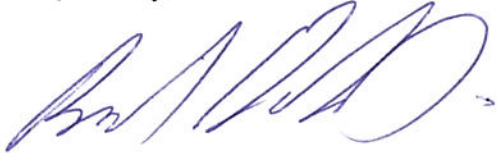
While we do not disagree with the new elements proposed for the auditor’s report related to independence, our belief is that the investor community is well versed with respect to the requirements and expectations regarding auditor independence. Furthermore, reinforcing or reminding the auditors of their responsibility by requiring these new elements, in our opinion, will not prevent or detect instances where an auditor misleads the public in this regard.

## **Audit Tenure**

We do not oppose the disclosure of audit tenure, and in fact we already provide this information to our investors in our Proxy statement. We believe that this is a more appropriate location for such information. Including this information in the audit opinion itself would be a distraction from the purpose of the audit opinion.

Thank you for the opportunity to comment on this important topic. Please feel free to contact us to discuss our comments.

Respectfully,

A handwritten signature in blue ink, appearing to read "Richard Galanti", with a stylized flourish at the end.

Richard Galanti  
Executive Vice President and  
Chief Financial Officer

Cc: Charles T. Munger, Chair, Costco Wholesale Audit Committee