



December 11, 2013

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, North West
Washington, DC 20006-2803

Submitted via email: comments@pcaobus.org

Re: PCAOB Release No. 2013-005, PCAOB Rulemaking Docket Matter No. 034

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (the "PCAOB" or the "Board") proposed rule, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report, and Proposed Amendments to PCAOB Standards Related to the Proposed Auditor Reporting Standard* (the "proposal"). Regions Financial Corporation ("Regions"), with nearly \$120 billion in assets, is one of the nation's largest full-service providers of consumer and commercial banking, wealth management, mortgage and insurance product services. We serve customers in 16 states across the South, Midwest and Texas, and through our subsidiary, Regions Bank, operate approximately 1,700 banking offices and 2,000 ATMs.

We have significant concerns regarding both the proposal's requirement to discuss Critical Audit Matters ("CAM" or "CAMs") and the proposal's more stringent standard of auditor involvement in other information presented within the financial statements ("other information").

In an article published in their September 2013 issue of Heads Up, Deloitte and Touche noted that, "The proposal represents the most significant expansion of tailored information provided about a financial statement audit by auditors to the user community in the profession's history". In our opinion, these disclosures, along with the expanded responsibility for other information, will not promulgate decision useful information, will inappropriately infringe on management's disclosure responsibilities, will weaken and obscure the audit report, will create confusion among users, will impair an auditor's ability to meet filing deadlines, and will result in significant increases in audit fees. Consequently, we cannot support the Board's proposal as it currently exists.

CAM

The proposal would require auditors to disclose, in their report, matters that the auditor deems “critical” to the audit. As defined, CAMs are, “Those matters the auditor addressed during the audit of the financial statements that (1) involved the most difficult, subjective, or complex auditor judgments; (2) posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to the auditor in forming an opinion on the financial statements”¹. For each CAM, auditors would describe the considerations that led them to identify the matter as a CAM and, when applicable, refer to the financial statement accounts and disclosures that relate to the CAM². The proposal also seems to implicitly prefer the inclusion of language describing the audit procedures related to the CAMs³.

When considering matters that may qualify as CAMs, we noted topics that were highly duplicative of issues extensively covered within existing company disclosures. The required disclosure of critical accounting policies, significant estimates, business and operating trends, financial and operating risk factors, and other required disclosures adequately address matters that may be considered CAMs. Considering this, it is unclear what would be gained by adding CAMs to the audit report.

Also, as noted by the Board on pages A2-42-3 of the proposal, in certain cases (e.g., significant deficiencies in internal controls, certain going concern considerations), the auditor would be required to disclose information in the report that would not otherwise be disclosed by management. This reverses the normal relationship of management and auditor. Management, not the auditor, is solely responsible for preparing and filing financial reports. The auditor should not be the first source of information, provide disclosure of information not disclosed by management or have the appearance that it is making financial reporting decisions on behalf of management.

Next, we are concerned that CAMs may lead users to construe implicit qualifications of the audit report creating a perception that there may be weakness or deficiencies in management’s judgment, financial statement estimates or internal control environment, when none exists. The description of such complex matters would be necessarily abbreviated, given the forum; therefore, it is very likely that the enumeration of such matters will be taken out of context or simply misunderstood. Because the proposal would result in a large gap between private company audit reports and public company audit reports, we believe confusion would be particularly poignant among users of both report types.

¹ PCAOB Release No. 2013-005, Page A1 – 7, paragraph 9

² PCAOB Release No. 2013-005, Page A5-38, paragraph E – “[In addition to identified CAMs, auditors are also required to document] non-reported audit matters that would appear to meet the definition of a critical audit matter that were not critical audit matters”.

³ We say “implicitly” because, although the matter is discussed within the background section, the actual proposal is silent on the matter. However, the three illustrative examples on pages A5 – 67-78 all include illustrative language of auditing procedures performed to deal with the CAMs in question. This matter needs further clarification from the Board if CAMs are included in the final rule.

These misunderstandings or confusions could lead to several unintended conclusions. For example, users may equate the number of CAMs to inherent risk, users may conclude that auditors are expressing piecemeal opinions on individual accounts or matters, or users may conclude that auditors are expressing reservations about the matters in question. These conclusions would be understandable, yet inappropriate.

To further illustrate potential confusion among users, take, for example, the discussion of significant deficiencies in internal control within CAMs. Any such discussion necessarily challenges the current definition of significant control deficiencies, which is understood to have a less than material impact on the overall financial statements. Can a matter be both immaterial and “critical” to the auditor’s report? This seems very confusing to us. We contend that if a matter is immaterial, then it is functionally irrelevant to the user. Thus, any discussion thereof only serves to weaken and obscure the auditor’s opinion.

In light of the reasons outlined above, we believe CAMs should be omitted from the Board’s final rule.

Other Information

The proposal’s description of auditor responsibility for other information will significantly expand the scope of work by introducing required audit procedures to support the auditor’s conclusion about the evaluation of other information. Specifically, under PCAOB AU Section 550, the auditor is required to “read” and “consider” other information, whereas under the proposal, the auditor is required to “read” and “evaluate” the other information on the basis of relevant audit evidence obtained and conclusions reached during the audit.

We don’t believe most users of financial statements will be aware of the additional procedures required to meet this change. Where some users are aware, we are concerned that they might perceive the auditor’s “conclusion” on the evaluation of other information as an opinion on this information. The proposed “negative assurance” report structure does not allow the user to know, exactly, what was independently verified and what was not. Some disclosures within other information involve forward looking financial information or insights that often are not objectively verifiable. The proposed “negative assurance” structure may, however, cause this information to appear subject to auditor procedures, when it was not. As such, we believe the proposed rules regarding other information will confuse users, thereby weakening and obscuring the auditor’s opinion.

Conclusion

The purpose of the audit report is to definitively state whether the financial statements are fairly presented, in all material respects. The user community is best served when the audit report

clearly and concisely communicates the auditor's singular, final conclusion. In other words, the user simply wants to know, "Are the financial statements fairly presented? Yes or no." We believe the current audit report effectively answers this question. Consequently, we do not believe the changes in the proposal are warranted.

Again, we appreciate the opportunity to comment on this proposal and we thank you for considering our views. If you have any questions about our comments or wish to discuss this matter further, please contact me at (205) 326-4972.

Sincerely,

A handwritten signature in cursive script that reads "Brad Kimbrough".

Brad Kimbrough
Executive Vice President, Controller and
Chief Accounting Officer