



December 11, 2013

Via email to comments@pcaobus.org

Office of the Secretary
Public Corporation Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 34

Dear Office of the Secretary:

PNM Resources, Inc. appreciates the opportunity to respond to the Proposed Auditing Standards contained in PCAOB Rulemaking Docket Matter No. 34.

PNM Resources, Inc. is a diversified energy company in the United States with approximately \$5.4 billion of assets, \$1.6 billion in annual revenues, and a market capitalization in excess of \$1.8 billion. Our subsidiaries and affiliates are involved in the generation, transmission and distribution of electricity, as well as energy management and other energy-related services primarily in New Mexico and Texas.

We appreciate the PCAOB's efforts to enhance the current auditor's reporting model. Although we support certain aspects of the proposed standards, we do not believe that the proposed standards taken as a whole are an overall improvement in the reporting model. Therefore, we do not support the adoption of the proposed standards in their current form.

We commend the PCAOB for retaining the basic "pass/fail" model of the auditor's report. We believe that is the primary purpose of the audit process and what is of the most concern to users of audited financial statements. However, we believe the additional disclosures set forth in the proposed standards regarding critical audit matters will add many pages of language to the existing report model. These additional disclosures will detract from the basic intent of the auditor's report, which is to communicate the results of the audit under a "pass/fail" approach. These additional disclosures may have the unintended consequences of confusing the users of financial statements and implying that the additional language is qualifying the audit with respect to the items discussed. Additional comments regarding the disclosure of critical audit matters are provided below. We also believe that the PCAOB has underestimated the cost impacts of the proposals to disclose critical audit matters and to expand the auditor's responsibility with respect to other information in documents containing the audited financial statements. We believe there will be significant cost increases if the proposals are adopted while providing essentially no benefit for preparers and what will ultimately be of very little benefit to users of financial statements. Accordingly, we do not support the adoption of the proposed auditing standards.

We do support the proposed requirements to add "and the related notes" to the description of the financial statements being audited and "whether due to error or fraud" in the basis of opinion

portion of the report. These are improvements in communication of the auditor's responsibility without adding to the auditor's responsibility or procedures and should not have impacts on the cost/benefit relationship. Also, we do not object to the additional discussion of independence although we do not think it adds information that will be meaningful to users of financial statements that is not already conveyed by having "independent" in the title of the report. Discussion of areas where we have concerns is presented below.

Critical Audit Matters

We do not support including a discussion of critical audit matters in the auditor's report. As mentioned above, we believe the additional discussion will be confusing and detract from the basic premise of the auditor's report, which is to communicate the "pass/fail" results of the audit.

The required description of critical audit matters will likely consist of many pages of lengthy disclosure for most entities. The audit firms will undoubtedly err on the side of more disclosure than less in order to protect their interests, which will exacerbate the extent of their reports. Auditors will not omit any matter that, in hindsight, might be considered critical in litigation or an investigation. Furthermore, over time, we believe the disclosures of critical audit matters will become somewhat standardized by industry and the language will evolve into boilerplate. For example, the reserve for loan losses for all banks and other lending institutions and the determination of mineral reserves for all oil and gas and mining entities will likely be critical audit matters. The descriptions of these matters will become relatively standard even though, in actuality, every entity and every audit is different.

The proposal allows for the discussion of the audit procedures applied to each critical matter and the PCAOB asks if such a description should be included in the audit report. We do not believe a description of the audit procedure should be allowed or required and suggest that it be prohibited if the requirement to disclose the critical audit matters is retained in a final auditing standard. We believe such description would only increase the length of the disclosures and add to the confusion of the audit report, while not adding any meaningful information.

While we do not support the inclusion of critical audit matters in the auditor's report, we find it curious that the proposal is to only include such a description for the most recent year. This seems inconsistent with the requirement for the audit report to cover all years presented and to the references to "audits" in the example wording of the auditor's report.

The PCAOB indicates that it believes there will only be a modest increase in cost to include a description of the critical audit matters in the auditor's report since it would just involve reporting on work already performed. We respectfully disagree with that premise. While additional detailed audit procedures would not be required, the time involved in the drafting and review of the auditor's report will significantly increase. That increased effort will primarily involve partners and managers of the audit firms and would be billed to their clients at much higher rates per hour than the overall rate for the entire audit. Furthermore, this effort will essentially all occur at the very end of the audit process, when the time of the partners and managers should be devoted to more substantive aspects of completing the audit.

The definition of critical audit matters contained in the proposals and the surrounding discussion indicates that most of the matters identified as critical will likely be very similar to matters management now identifies as involving critical accounting estimates, which are disclosed and discussed in the Management's Discussion and Analysis section of an entity's Form 10-K.

Therefore the discussion in the auditor's report will be somewhat duplicative of management's disclosures.

For the reasons set forth above, we do not support the requirement to include a discussion of critical audit matters in the auditor's report, and suggest this requirement be deleted from any final auditing standard.

Auditor's Responsibility Regarding Other Information

We do not object to clarifying the auditor's report with respect to their responsibility regarding other information in documents containing audited financial statements. However, we believe the requirements of the proposed auditing standards significantly increase the responsibility of the auditor's for such information. We do not support an increase in the auditor's responsibility since we do not think it will result in sufficient additional meaningful information to justify the costs involved with the additional responsibility of the auditor.

The current auditing standards require the auditor to "read" and "consider" the other information contained in documents including audited financial statements. The proposed auditing standard would require the auditor to "read" and "evaluate" such information. We believe there is a significant difference in those terms that will require auditors to perform fairly extensive additional audit procedures in order to meet the "evaluate" requirement. These procedures will increase the costs and such increases may be significant to some entities. For example, the proposals would seem to require the auditor to review and evaluate all of the information contained in the Compensation Discussion and Analysis section of an entity's proxy statement. The CD&A typically includes extensive tabulations of information related to compensation of the named executive officers of an entity. This information not only includes basic salary information, but also incentive compensation, perquisites, equity awards, retirement benefits, and termination benefits. Evaluating the CD&A information will require a substantial effort, which will increase the cost of an audit.

The proposals would require auditors to read and evaluate information that is not yet available, such as proxy information, when the audit is completed and the audit report is signed and dated. This requirement seems to place an unrealistic burden on auditors and the entities being audited. It is not appropriate to require an auditor to include something in the audit report that is not available at the completion of the audit. The proposals address how the auditor is to deal with such items, but we do not believe the proposals provide a practical framework. We would be surprised if the audit firms would be willing to accept such a proposal without at least identifying what they have not seen. Furthermore, the inclusion of information not yet available will likely confuse users of financial statements since they cannot make informed decisions, or place reliance on an auditor's involvement, regarding information that is not available.

In addition, the proposals cover all information incorporated by reference into the document not just information that is not available. We believe this would further expand the auditor's procedures for very little benefit to users and should not be required.

As mentioned above, we would not object to an addition to the auditor's report that simply explains the current auditing standard covering the responsibility of the auditor for information included in documents containing audited financial statements. However, we do not support the proposed auditing standards because they significantly expand the auditor's responsibilities, which would significantly increase audit costs without justified benefits.

Auditor Tenure

The proposed auditing standards would require the auditor to state the year the auditor began serving as auditor. We do not support this requirement as we do not think it adds meaningful information and could detract from the audit report or imply that a problem exists when one does not exist.

If there has been a change in auditors within the period covered by the financial statements, it will be obvious to users of financial statements since a report of the prior auditor would be included with the financial statements in almost all cases. In addition, a change in auditors requires the filing of a Form 8-K that discusses the change and whether there were any disagreements between the entity and the prior auditor. The audit relationship is also discussed in an entity's proxy statement. Many entities disclose how long the existing auditor has served the entity in their proxy statement, as well as factors relative to the retention and relationship of the auditors. The proxy statement provides a much better context for users to evaluate the tenure of the auditors rather than the mere inclusion in the audit report of the year the auditor began serving as auditor. Therefore, we suggest this requirement not be included in any final auditing standard.

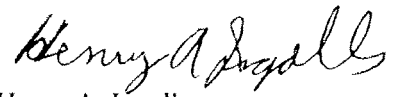
Effective Date

The proposals indicate they would be effective for audits of financial statements for fiscal years beginning on or after December 15, 2015. We believe that the PCAOB may need to do extensive outreach efforts after responses to the proposals are received. We believe there will be substantial questions raised in the responses regarding the inclusion of critical audit matters in the auditor's report, the expansion of the responsibilities of the auditor regarding other information included in documents containing audited financial statements, and the cost of the proposals relative to the benefits obtained. For these reasons, we question whether the proposed effective date is realistic.

Presumably, the wording that the effective date would be "for audits of financial statements for fiscal years beginning on or after December 15, 2015" implies that a final standard would be applied only prospectively and that years prior to the year of implementation would not be included. This could have significant impact in situations where there has been a change in auditors. If the prior auditor has resigned, it might be virtually impossible to have the prior auditor involved in a manner that would increase the auditor's responsibility for other information. Even in situations where the change in auditors was not contentious, the need to involve the prior auditor beyond the re-issuance of the auditor's report on the prior financial statements would be less than desirable. We suggest the PCAOB add clarification that any final auditing standard would only apply prospectively.

As set forth above, we do not support the proposals in their current form. We suggest that the requirements to disclose critical audit matters and the tenure of the auditor be removed from any final auditing standard. In addition, we suggest that the requirement to clarify the auditor's responsibility regarding other information contained in documents including audited financial statements be limited to a clarification of the auditor's responsibility under existing auditing standards and that the auditor's responsibility not be expanded. Furthermore, we believe that the requirements, as proposed, would significantly increase audit fees while providing essentially no benefit to the preparers and little benefit to users of financial statements.

Sincerely,

A handwritten signature in black ink, appearing to read "Henry A. Ingalls". The signature is written in a cursive style with a large, prominent initial "H".

Henry A. Ingalls
Director, SEC Reporting and GAAP Analysis
PNM Resources, Inc.

