701 Pennsylvania Avenue, N.W. | Washington, D.C. 20004-2696 | 202.508.5000 | www.eei.org

Edison Electric Institute

December 11, 2013

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington DC 20006-2803

File Reference: PCAOB Rulemaking Docket Matter No. 034

Dear Ms. Brown:

The Edison Electric Institute ("EEI") respectfully submits our comments on the Public Company Accounting Oversight Board's ("PCAOB" or "the Board") proposed audit standards included in Release No. 2013-005 addressing both *The auditor's report on an audit of the financial statements when the auditor expresses an unqualified opinion* (the "proposed auditor reporting standard") and *The auditor's responsibilities regarding other information in certain documents containing audited financial statements and the related auditor's report* (the "proposed other information standard").

EEI is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for 220 million Americans, operate in all 50 states, and directly employ more than a half-million workers. With more than $85 billion in annual capital expenditures, the electric power industry is responsible for millions of additional jobs. EEI has 70 international electric companies as Affiliate Members, and 250 industry suppliers and related organizations as Associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

Overall concerns

EEI appreciates the PCAOB's efforts to enhance the information provided to investors and financial statements users. We agree that financial statement users should have access to timely, accurate, objective and relevant information for purposes of making investment decisions. However, we strongly disagree with the proposed auditor reporting standard and proposed other information standard included in PCAOB Release No. 2013-005. We believe a company's financial information and the communication of that information is management's responsibility. We believe the SEC and the FASB should continue to serve as the standard setters for establishing the requirements for information to be provided to investors, and that management should be responsible for communicating such information.

The SEC has enacted various regulations over time (including designation of FASB as the organization responsible for promulgating US GAAP) on *what* information needs to be disclosed. Importantly, these rules designate management as the responsible party to determine *how* to communicate this information to most accurately reflect a company's financial results and position. The role of the external auditor is to verify that the information presented by management complies with the applicable SEC / FASB requirements and is presented fairly in all material respects. When such requirements are met, an auditor provides an unqualified audit opinion to investors. In the event that the financial statements do not meet these requirements, the external auditor is required under AU Section 508 to issue alternative audit opinions.

The audit committee is comprised of a subset of a company's shareholder-elected Board of Directors and is required to be independent[1] and either include at least one Financial Expert [2] or disclose why there is not one. This independent committee is charged with oversight of both the auditor and management's financial reporting. The SEC and PCAOB provide additional oversight of management, the audit committee and external auditors by reviewing the financial statements and the audits thereof to ensure these parties are performing their duties appropriately. If management, the audit committee, and the external auditors fulfill their respective responsibilities to communicate timely, accurate, objective and relevant information to financial statement users that is audited in accordance with existing professional standards, we believe the additional communications and requirements outlined in the proposed auditor reporting standard and the proposed other information standard are unnecessary.

In addition to these overall concerns, we provide the following specific observations regarding each proposal.

The Auditor Reporting Standard

Of the various requirements proposed in the auditor reporting standard, we most strongly disagree with the requirement that the auditor disclose critical audit matters (CAMs) within the audit report. As such, we have limited our response on the auditor reporting standard to this matter. We believe the proposed standard would undermine the role of the audit committee and could be detrimental to the usefulness and relevance of the audit report. Further, we believe the proposed standard would result in lack of consistency and comparability of auditors' reports across companies while increasing the cost of regulatory compliance.

---

[1] Sarbanes-Oxley Act Section 301

[2] SEC Release No. 33-8177

The proposal would undermine the role of the audit committee and could be detrimental to the usefulness of the audit report

The audit committee, as part of the shareholder-elected Board of Directors, has the authority to oversee the audit and ensure the financial statements contain appropriate disclosure on behalf of shareholders. With its access to auditors, management and the Board of Directors, the audit committee has the requisite knowledge, perspective and authority to ensure the various risks or issues of the reporting entity are disclosed in a manner commensurate to their materiality and relevance to investors. The Board's proposal would undermine this oversight role by effectively requiring the auditor to make disclosure notwithstanding the views of the audit committee. Furthermore, this requirement could potentially limit discussions of significant audit matters with the audit committee or put the auditor in the role of making disclosures in their audit report of *any* significant audit matter discussed with the audit committee in order to avoid being challenged by the PCAOB. We believe that these considerations could have an adverse impact on the role of the audit committee by reducing transparency between the independent auditor and the audit committee. We believe investors are best served by retaining the audit committee as the primary oversight of the audit process.

In addition to the above, in the preparation of the financial statements, management has the responsibility to develop disclosures with sufficient clarity to aide investors and analysts, while not providing information that could be used by competitors or litigators to the company's detriment. This fiduciary duty is entrusted to a company's management and Audit Committee by the shareholders and does not extend to the company's audit firm. Requiring audit firms to disclose critical audit matters may result in a conflict of interest between an audit firm's interests to reduce its own regulatory and litigation risk and an Audit Committee / management's fiduciary interests to not disclose proprietary or other competitively sensitive information.

The auditor is expected to conduct an audit to obtain reasonable assurance that the financial statements are materially correct when taken *as a whole*. The auditor's report does not include, nor do we believe it would be appropriate or practical to include, all of the factors considered by an auditor when forming the overall audit conclusion. Therefore, without the full context of a company's financial transactions, business environment and internal controls obtained by the auditor throughout the audit process, an investor may inappropriately over-emphasize the importance of a CAM when making an investment decision. Likewise, highlighting CAMs in the audit report may lead investors to over-emphasize certain risks because they are disclosed as a CAM and under-emphasize other important business risks that may not meet the proposed CAM disclosure criteria. Additionally, disclosure by the auditor of the most difficult aspects of the audit may be interpreted by some as the auditor expressing reservations in their report on those transactions or accounts affected by a CAM, or as the auditor providing a "piecemeal" opinion on the financial statements which would undermine the usefulness, authority, and credibility of the audit report.

The proposal would undermine the relevance of the audit report/financial statement disclosures

The matters that would be required to be disclosed as CAMs should already be provided in the financial statements or are not material to investors in making investment decisions. The proposal states that CAMs are those matters addressed during the audit 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 the opinion on the financial statements. Many of those matters meeting the criteria above relate to subjective or complex accounting areas which are already disclosed within the financial statements as required by US GAAP or SEC rules. Examples include critical management judgments, risks and uncertainties, and accounting estimates and policies. Repeating these disclosures in the audit report would result in duplicative disclosure and would undermine the relevance of either the audit report or the financial statement disclosures. If any additional information or disclosure is deemed necessary, such disclosure should be addressed by the SEC and the FASB as part of the financial reporting standard setting process.

The proposed standard would also require that auditors disclose certain audit matters that we do not believe would be considered relevant to investors when making investment decisions. Examples include the level of audit effort applied to a particular account, immaterial or corrected misstatements, change in auditor risk assessment, and an auditor's use of a specialist. Such items may provide information on a business's accounting operations or an auditor's approach, but do not impact the underlying economics or accounting of the business and therefore may not be considered relevant by investors.

Auditor reporting would no longer be comparable or consistent across entities

Under the proposed standard, the auditor's determination of what is considered to be a CAM will involve a considerable amount of professional judgment and will decrease comparability of the auditor's report. There is a risk that auditors may take a conservative approach and include numerous CAMs in order to avoid potential PCAOB inspection findings or litigation, resulting in voluminous disclosure within the audit report and thereby obscuring the overall opinion. Further, investors may incorrectly interpret longer auditors' reports as an indicator of higher investment risk rather than as a matter of an auditor's professional judgment or reporting policy. There is also the risk that each audit firm's interpretation of what meets the definition of a CAM will differ, resulting in lack of comparability between audit reports for similar companies or industries. We therefore have concerns that the auditor's subjective determination of what is considered to be a CAM could be used erroneously as the basis for, or at least influence, differences in investor decisions among otherwise comparable entities.

Potential implementation challenges and cost considerations

We believe that the PCAOB should undertake a cost-benefit analysis to assess whether the increased costs of compliance with the proposal would outweigh any perceived benefit. A significant amount of additional time would be required by audit firms in order to develop, review and present CAMs, which would result in increased audit fees. Extensive discussion and consultation with Company management, legal and the audit committee would also be required, resulting in increased internal costs. Further, because some CAMs may not be identified until late in the audit process as the audit is performed, this additional work would be required during an already busy period within the audit and financial reporting cycle which would impact the timing of SEC filings, and would likely lead to filing delays. Consequently, the ability of investors to obtain financial information in a timely manner would be hindered. It is not clear to us that additional time and effort to comply with this standard would be cost beneficial to investors if management has complied with its responsibilities in preparation of financial statements.

While we do not support the inclusion of CAMs in the auditor's report, if the Board ultimately determines to implement the rule as proposed, we request that the effective date be delayed to allow companies and auditors to field test how the CAM provision would be applied in practice and provide an opportunity to mitigate the potential issues identified above.

The Other Information Standard

We support adding language to the auditor's report that will *clarify* the auditor's procedures and responsibility for other information contained in SEC filings (such as the MD&A). We do not support *expanding* the auditor's responsibilities regarding other information, or including language in the auditor's report that could be perceived as an expansion of the auditor's responsibilities. We believe the proposal would lead to higher costs with no commensurate benefit to investors. Further, we believe the proposal as written would result in several practice issues that would result in inconsistent application among audit firms.

Management should continue to prepare and present the other information contained in the annual reports of public companies, with over-sight from the Audit Committee, without the additional costs of such information being subject to additional procedures by the auditors. We support the retention of existing procedures contained in AU sec. 550, *Other Information in Documents Containing Audited Financial Statements,* which require auditors to "read and consider" other information to ensure the information is consistent with the audited financial statements. We believe AU 550 provides an appropriate level of assurance for the other information considering both the costs and benefits of such assurance.

We believe the "read and evaluate" language included in the proposed standard implies, and is likely to result in, a level of additional procedures that is substantively different from and greater than the requirements set forth in AU sec. 550. We do not agree with this change in the proposed language as it will have far reaching impacts on the procedures currently being applied to other information. We believe that, in carrying out their professional responsibilities, auditors presently are conducting a sufficient level of review commensurate with the nature and purpose of that information.

We believe the use of the term "evaluate" will prompt auditors to expand their procedures substantively beyond the existing requirements in AU sec. 550 resulting in unnecessary procedures and increased costs. Furthermore other information contained in annual reports is often subject to change late in the audit process. Similar to the timing of CAMs, the additional work over other information will be required during an already busy period within the audit and financial reporting cycle and would lengthen the timing of a company's SEC filings to the detriment of investors.

Alternatively, we recommend that the Board retain the existing procedures in AU sec. 550 but ensure that the language presented in the auditor's report clearly communicates what those existing procedures entail. If the Board believes further clarity is warranted to differentiate the level of assurance provided within the financial statements, we request the Board consider a more cost effective approach. For example, the Board could consider adding headers or other disclaimers on each page of the audited financial statements that indicate if the information is audited.

While we disagree with the proposal, we believe several practice issues need to be addressed within the standard if the Board determines to adopt the standard as proposed. These practice issues include determining what information would be subjected to the expanded procedures, what procedures to perform on forward-looking statements, and how an auditor should determine materiality of non-financial information.

Conclusion

As discussed above, we do not support the inclusion of CAMs in the auditor's report or expanded audit procedures on other information contained in the annual report. We urge the Board to reconsider the proposals. We believe that auditor reporting of CAMs would decrease the relevance of the audit report, the role of the audit committee, decrease audit report comparability and increase costs of compliance all to the detriment of investors. Further, we believe guidance currently contained in AU sec. 550 appropriately addresses the procedures to be performed by the external auditor over other information contained in SEC filings and it is unclear to us whether the benefits arising from any further audit scrutiny would justify the costs.

* * * * * *

EEI appreciates the opportunity to provide our input on the proposed audit standards included in the Release. We would be pleased to discuss our comments and to provide any additional information that you may find helpful.

Very truly yours,

/s/ Richard F. McMahon, Jr.

Richard F. McMahon, Jr.
Vice President