December 17, 2013

Ms. Phoebe Brown
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. 34

Dear Ms. Brown:

The PNC Financial Services Group, Inc. ("PNC") appreciates the opportunity to comment on PCAOB Release No. 2013-005, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* and *The Auditors Responsibilities Regarding Other Information in Documents Containing Audited Financial Statements* (the "ED").

PNC is one of the largest diversified financial services companies in the United States. We take this opportunity to present the Public Company Accounting Oversight Board ("the PCAOB" or "the Board") with a large Securities and Exchange Commission ("SEC") filer's perspective on the Board's initiative intended to enhance the existing auditor's report and expand the auditor's responsibilities. The ED appears to be based upon an implied presumption that information needed by investors is not being disclosed, or that management is not willing to disclose it. Further, it appears that the PCAOB has not given an appropriate amount of credit to the positive results of the Sarbanes-Oxley Act. Specifically related to this, PNC management has developed strong internal controls over financial reporting to ensure adequate information is publicly disclosed. Accordingly, it is unclear to us, what is not working within the current financial reporting process, and what the PCAOB is trying to address/correct.

Additionally, our concerns regarding the proposal relate to weakening the boundaries between the roles of the auditor, the board of directors and management, increasing the possibility of disclosure of non-public information that may be detrimental to the investors of a company through an auditor's discussion of critical audit matters, and lengthening of the financial reporting time-frame in conjunction with incremental costs.

Further, the likely result of the ED will be an increase in disclosures of a lesser significance. When considering the factors an auditor should take into account when determining a critical audit matter, we note that certain factors related to the degree of subjectivity, the nature and extent of effort, and the amount of evidence regarding a specific item are already considered in management's determination of its key disclosures. These disclosures address risks and uncertainties to its operations, as well as the subjectivity of estimates. Ultimately, whatever marginal improvements are presumably gained will be outweighed by their costs.

In general, we support efforts to increase transparency and simplify financial statement disclosures; however, we believe that any additional disclosures resulting from the ED are management's responsibility and increasing the auditor's responsibility to add more disclosure to the annual report is counter to the auditor's role as attesters of the overall financial statement presentation. We also

believe the Board's proposal will be a step back from the progress that has been made in making boards and audit committees more empowered. Today, matters related to the audit and financial information are discussed at length by management, audit committees and auditors in an open and constructive environment, which we feel would be at risk under the proposal.

Recommendations

PNC believes that the proposal will cause a fundamental change in the role of the auditors from a role of attesting management's information to a role of authoring information that management has not already disclosed and determining which issues are more critical for the company. Therefore, we respectfully disagree with the PCAOB's conclusion that its proposal would not change the auditor's role.[1] While critical audit matters will highlight areas of an audit that may have been challenging to the auditor, these matters do not necessarily provide any additional decision useful information to investors about the business and prospects of the company, particularly when the auditor agreed with management's judgment. Additionally, disclosure of critical audit matters by the auditor may even be detrimental to investors if prejudicial information is disclosed. Finally, an auditor's review of information outside the financial statements, including the MD&A, would increase the cost of the audit without a benefit that outweighs the cost and may result in a restriction of information that is deemed useful to investors by management. As such, we recommend that the Board reconsider and not move forward with the proposal to expand the auditor's report. Conversely, contrary to our view that adequate public information is disclosed, if an auditor has critical information that is not required to be disclosed by management, we recommend that changes be made to public disclosure requirements, which we respectfully submit falls within the SEC's and FASB's jurisdiction.

Critical Audit Matters Section in Proposed Report

Although we agree that the proposed requirements for auditors to identify critical audit matters, and to describe the considerations that led them to that designation, would provide more information about the audit, we question the ultimate value of that information to investors and users of financial statements. Critical audit matters would reflect matters that may have required more judgment by an auditor in reaching a conclusion, but from a management and investor perspective could be a standard business activity. In addition, an investor would also expect and rely upon the auditor to be sufficiently capable of resolving such matters to its satisfaction. Discussion of such matters would detract from more relevant disclosures that provide decision useful information. For example, PNC may issue debt instruments as part of our standard business activities, which may have embedded derivatives or other structured elements. As accounting for structured debt transactions can vary between debt, equity and fair value accounting, and impact our reported financial results, management would spend a significant amount of time in ensuring accurate accounting for these items, and consequently, the auditor would also be required to exercise judgment. However, in most cases, issuance of debt is generally a routine transaction which would be discussed by management in Management's Discussion and Analysis ("MD&A"). We do not believe that such transactions should be unduly emphasized as critical audit matters; however, the proposal could be construed as requiring the auditor to include discussion of such transactions in its audit report.

In addition to the distraction created in financial reporting, the proposal to require auditors to describe critical audit matters could potentially harm investor interests. For example, a company may have a pending lawsuit where the plaintiff is asking the company for an unreasonable amount in damages. Although the company may not believe that a legal liability exists and may conclude that, under accounting principles generally accepted in the United States of America ("GAAP"), an accrual is not required, the company's auditor would need to obtain evidential support for management's

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[1] *Ibid.*, Summary page 27

position and may spend significant time and resources assessing the evidence collected[2]. Even if the auditor were to agree with the company's conclusion after the auditor's assessment, adoption of the critical audit matter reporting requirement could cause the auditor to make a determination that this issue, although resolved consistently with the company's viewpoint, was one of the most critical accounting matters that occurred during the reporting timeframe. Accordingly, the auditor would discuss this as a critical audit matter in compliance with the ED, thus providing more disclosure than what management would believe prudent or necessary. In this potential scenario, the company may not be required to provide any disclosure about the litigation under GAAP and may have strong and legitimate reasons for not wanting to explain its reasons for not accruing any amounts related to the litigation because such disclosure might result in information that would prejudice the litigation and adversely affect the company's ability to limit any adverse consequences of the litigation. The identification of this matter as a critical audit matter by the auditor would, accordingly, likely result in a prolonged process with additional costs incurred, as well as disclosures not required by GAAP.

The proposal would require auditors to explain variations in their audit approach surrounding critical audit matters that were caused in part by control deficiencies that would otherwise not arise to the level of a qualification in the Internal Controls over Financial Reporting ("ICFR") opinion, nor require such matters to be disclosed by management, therefore exceeding current SEC reporting requirements. In effect, the proposal would lower the bar for assessment and disclosure of internal control deficiencies that was set under the Sarbanes-Oxley Act.

As shown by examples above[3], the proposal would require disclosure in excess of GAAP and rules promulgated by the SEC under the Sarbanes-Oxley Act. The Board should consider that this proposal would override laws that establish reasonableness of disclosures and delineate responsibilities between management, the board of directors and the auditors. We do not believe that the Board should promulgate rules that allow for disclosures to be made that would otherwise not be required and as such provide a back-door to more disclosures at the discretion of the auditor. Further, in order for audit firms to limit their liability, or limit challenge from the PCAOB, it is inevitable they will insist on additional disclosures that are not required by the SEC.

Lastly, the ED requires the auditors to look to their engagement completion document, the work of engagement quality reviewers, and communications to the audit committee for the source of critical audit matters[4], and to document their determination of critical audit matters including why matters addressed in the audit that could meet the definition of critical audit matters were not reported as critical audit matters[5]. We believe this documentation requirement would result in the need for the auditors to document a large number of items, which would likely delay the completion of the audit. In addition, this requirement could lead to a significant demand on management's time and resources to 1) further document for its auditor why items are not critical audit matters and/or 2) assess the auditor's requests to include such items as critical audit matters and support the auditor's documentation efforts, while also increasing audit hours and overall costs of the audit. We believe these additional efforts and the associated costs will provide no value to the auditors, board of directors, management, analysts or investors. However, we believe the press agencies would value this information in order to create headline stories which would have little substance and could be taken out of context. In our case, extensive communications already exist between our auditor and PNC's Audit Committee. As we stated in our introduction, if a premise for this standard is that a company's process for disclosing higher risk or critical items is insufficient, a study of those practices

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[2] Based on the criteria in the proposed standard, an auditor might identify this matter as a critical audit matter. ED at §9(b), (c), (g) and (h) of Appendix 1, page A1-7 and A1-8.

[3] The Board also acknowledged possibility of additional disclosures. ED at Appendix 5, page A5-42-43.

[4] *Ibid.,* §8 of Appendix 1, page A1-6

[5] *Ibid.,* §14 Appendix 1, page A1-10

and recommendation for improvements should be conducted in order to improve financial reporting instead of this proposed standard.

Other Information Section in Proposed Report

The Board proposes to require that auditors also assess "consistency of any qualitative statement in other information, and the manner of its presentation"[6] based on relevant audit evidence obtained[7]. We believe this would result in the auditor imposing its views within MD&A. In our view, the purpose of the MD&A is for management to have complete authority and ability to determine the need and manner of presentation of qualitative information. The auditor should not be able to change management's qualitative analysis of information, as long as the information that is presented is reasonable and accurate. Therefore, we believe that the Board should not increase the auditor's responsibility to assess qualitative information presented within the MD&A. For example, management may discuss causes and effects of relationships between certain performance metrics and economic data in MD&A. The auditor may have noted an empirical relationship between economic data and the company's results as part of their substantive data analytics; however, the auditor may have developed a divergent opinion as to the likelihood of an outcome of an economic trend and therefore determine the qualitative statement to be inconsistent with audit evidence. Based on their interpretation, an auditor may ask the company to modify such statements. Because the proposed standard could potentially result in a modified audit report as it relates to other information, the company would not have any choice but to limit its discussion to what its auditor deems supportable and deprive investors of information that management considers relevant to the business.

Incremental Costs

We appreciate that the Board has already acknowledged that as a result of these proposals, the costs of performing the Audit will increase [8] and significant other costs will also be incurred by the company. We agree with auditors' views, described in the proposal document, that these costs would include costs to identify, draft, discuss and resolve issues around the critical audit matters and other information, as well as costs related to an increase in auditor's liability[9]. We recognize that the proposal document notes that investors have also acknowledged an increase in audit related costs. We believe, however, that the PCAOB, auditors and investors may not have fully realized the total impact of implementing the proposal.

Despite acknowledgement of additional costs, we believe there are other significant factors that need to be included in the analysis of this proposal. To the extent the auditor adds a comment on any critical audit matters not currently covered within the financial statements, it is unclear what management's responsibility would be to certify that information for SOX purposes[10]. We believe that a consequence of the proposal is that control processes that meet design and operating effectiveness criteria would need to exist related to any financial information being discussed as a critical matter. This would apply to information that is disclosed in MD&A today or information that is not discussed in the financial statements. Furthermore, it is unclear whether this information would then need to be included within the financial statements. In addition, typically, such matters would arise within the financial reporting time-frame (quarter end close through issuance of the Form 10-K/10-Q) and would

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[6] *Ibid.*, §4(b) Appendix 2, page A2- 3

[7] The ED would supersede current AU Sec 550, which does not include a specific requirement to review qualitative statements.

[8] *Ibid.*, Summary page 8, 12, 17 and 21

[9] *Ibid.*, Appendix 5, page A5-41 and Appendix 6, page A6-35

[10] i.e. under rules promulgated by the SEC under Section 404 of the Sarbanes-Oxley Act of 2002

not allow companies time to adequately establish, evaluate and document control processes appropriately for SOX purposes, leading to a further issue regarding internal control certifications.

Finally, we believe that the ED will place a significant burden on the time and resources of management and the audit committee to assist the auditor in completing the audit, which would lead to unnecessary added stress on the financial reporting time-frame. This process is already completed in a minimal amount of time (e.g., a large accelerated public company's Form 10-K is filed with the SEC within 60 days of quarter-end) given the voluminous amount of information provided in a filing. The additional documentation required by the proposal as well as discussions regarding the critical audit matters and any auditor observations about the information outside the financial statements will exacerbate the challenges in meeting current filing deadlines. We also believe that the proposed expansion of the audit report may increase the auditors' legal liability regarding information contained in the MD&A under the Securities Act of 1933,which imposes liability at a negligence level, given the incorporation by reference of the Form 10-K, including the MD&A, in registration statements for the public offer of securities.

In today's economic environment, where audit fees have already been significantly increasing because of additional audit work due to PCAOB inspections, some measure needs to be taken to directly link audit fees to value-added work by audit firms and limit annual fee increases to reasonable amounts. We believe the proposed additional costs are neither warranted nor necessary and that the additional costs will not support the benefits, if any.

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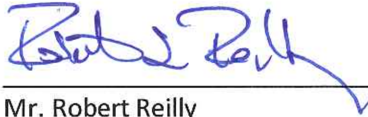
We appreciate the PCAOB's request for feedback on this matter and appreciate the opportunity to share our views with the PCAOB Board and staff. We welcome any questions or comments you may have. Please contact me with any questions about PNC's comments at 412-762-7546.

Sincerely,



Mr. Robert Reilly
Executive Vice President and Chief Financial Officer
The PNC Financial Services Group, Inc.

Mr. Gregory Kozich
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cc: John (JJ) Matthews
Director of Accounting Policy
The PNC Financial Services Group, Inc