



D. Keith Bell
Senior Vice President
Accounting Policy

The Travelers Companies, Inc.
One Tower Square, 6PB A
Hartford, CT 06183

Phone: 860-277-0537
Email: d.keith.bell@travelers.com

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Office of the Secretary, PCAOB
1666 K Street, N.W.
Washington, D.C. 2006-2803
Sent via email to: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 034 (Release No. 2013-05)

Dear PCAOB Board Directors:

We would like to thank the Board for the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) two new proposed auditing standards, *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*. While we agree with the Board's objective of providing more useful information to investors to assist them in making their investment decisions, we share the concerns of many of the respondents and participants in the public meetings that the proposals are too broad and could infringe on management and the audit committee's role in financial reporting. Our two specific concerns with the proposal are:

1. The proposed requirement to include "critical audit matters" in the audit report is not sufficiently clear and is overly broad, and
2. The proposed requirement to increase the auditor's responsibility over other information outside of the financial statements in certain filings with the Securities and Exchange Commission (SEC) is unnecessary and would be problematic as it would require skills other than accounting and auditing.

As discussed below, we have concerns with the proposals contained in Release No. 2013-05. However, if the Board concludes that new audit guidance is needed to address the concerns discussed in the release, we also offer some suggested changes to the audit standards that we believe would satisfy the intent of the proposals, without crossing the lines of responsibility of management and auditors.

Critical Audit Matters

We are concerned that the critical audit matters (CAM) proposal is not sufficiently clear and is overly broad and will lead to disclosure that may conflict with or duplicate disclosure that is the responsibility of and already provided by management. The conflicting or new disclosures would be due to the lack of clarity regarding what critical matters the auditor is required to disclose. As currently drafted, one could conclude that any matter that may be difficult for the auditor to audit or includes significant subjectivity in the estimate would be reported upon in the CAM even though the matter is not material to the financial statements. We are concerned that if a requirement for the CAM is created without squarely framing it in the context of materiality, the auditor's report will likely be viewed as conflicted and confusing rather than aiding investors' understanding of the company's financial position and results of operations.

Additionally, we believe that it is management's responsibility to disclose the most significant accounting and valuation estimates in the Critical Accounting Estimates (CAE) section of Management's Discussion and Analysis (MD&A) and not that of the auditor. We do, however, believe that it may be helpful to have the auditors provide an assertion as to whether they agree that management has appropriately identified the areas that pose the greatest risk of material misstatement in CAE and adequately described the uncertainties associated with those estimates. We believe that the Board could leverage the requirements in Auditing Standard No. 16, *Communication with Audit Committees* (AU No. 16), which requires the auditors to communicate to the audit committee the critical accounting estimates and significant unusual transactions, or where management makes that communication to confirm whether management adequately communicated these matters. Including this information in the audit report would be a natural extension of the communications that auditors are required to make to the audit committee under AU No. 16.

Auditor's Responsibility over Other Information

While we completely agree that all information provided to investors should be consistent, we do not believe that it is necessary for auditors to perform enhanced audit procedures on the other information. As currently required by Interim Standard AU Section 550 (AU 550), auditors are required to read the information and consider whether the information is materially consistent with the information within the financial statements and related notes. We have observed that in practice auditors appropriately do more than just "read the information" but also compare and, where appropriate, determine whether such other information is in agreement with the company's financial statements and notes to financial statements. Additionally, there is a process in AU 550 that details considerations for the auditor if there is a material inconsistency or if the auditor becomes aware of a material misstatement of fact. This process includes notifying management and the audit committee of the issue, as well as consideration of withholding the audit report and withdrawing from the engagement if the company does not address the issue.

In addition to the auditor's review of the information, there are other mechanisms which provide penalties for companies that do not provide consistent information. The first is the discipline that

comes with filing information with the SEC and responding to the SEC staff's comments during the review process. The second is the market itself, where investors will penalize companies for providing conflicting and incomplete information.

We also believe that it would be problematic for auditors to perform enhanced audit procedures on other information that falls outside of the accounting and auditing profession as such information may require skills from other technical professions, e.g., an electrical engineer may be required to review certain information provided by a micro-chip or computer manufacturer. With the mechanisms currently in place, we do not believe that the costs of requiring auditors to perform enhanced procedures would outweigh the marginal benefits, if any, that may be derived. It may be beneficial to inform investors as to the responsibility of auditors to review other information outside of the financial statements under current auditing standards. This can be done by including language in the audit report that describes the auditor's responsibility with regard to such information and a caution as to the limitations of that review.

Recommendations

If the Board concludes that new audit guidance is needed to address the concerns discussed in Release No. 2013-05, we recommend the Board:

- Revise the proposal on Critical Accounting Matters to require auditors to provide assurance in the audit report on whether they believe the company has appropriately identified the areas that pose the greatest risk of material misstatement in the Critical Accounting Estimates section of the MD&A, and whether the company has adequately described the uncertainties associated with the estimates; and
- Expand the audit report to include a description of the auditor's responsibility to review other information outside of the financial statements and the limitations of the auditor's review.

We would be pleased to discuss our views with the Board at your convenience. Please feel free to call me if you have any questions or would like to discuss our comments further.

Sincerely,

A handwritten signature in black ink that reads "D. Keith Bell". The signature is written in a cursive, flowing style.

D. Keith Bell