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Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006-2803
comments@pcaobus.org

Re: PCAOB Release No. 2016-003, PCAOB Rulemaking Docket Matter No. 34

Dear Members of the Board:

Wells Fargo & Company is a diversified financial services company with over $1.9 trillion in assets providing banking, insurance, investments, mortgage and consumer finance services. We appreciate the opportunity to comment on PCAOB Release No. 2016-003, *The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified opinion and Related Amendments to PCAOB Standards* (the "Re-proposal).

We continue to support the PCAOB's objective to improve investor confidence and understanding of the audit process through enhanced auditor communications[1]. We applaud the Board's attempt to incorporate feedback on the original proposal by incorporating the consideration of materiality in the identification of a critical audit matter ("CAM") and attempting to limit the auditor's ability to disclose original information. However, the changes in the Re-proposal do not fully address respondents' concerns nor do they provide compelling evidence that the disclosure of CAMs will provide "value-relevant" information beyond what is already publicly available to users. We strongly believe the identification and disclosure of CAMs will almost certainly add significant cost to the audit, create operational issues, and cause problems in the management/auditor relationship.

We question whether there is sufficient basis for the Board to re-issue the proposal given the feedback it received on the original proposal and the limited empirical evidence to support expanded auditor reporting, The Board acknowledged that research on expanded auditor reporting is limited and results are *ambiguous* as to whether expanded reporting has provided new information beyond what is already available in the financial statements. If the Board is unsure of the value of CAMs to users, we do not understand the Board's justification for the Re-proposal based on the hope that users will find information useful once they are provided with it.

[1] We previously commented on the original proposal in our letter dated December 2, 2013 (PCAOB Release No. 201-005, PCAOB Rulemaking Docket Matter No. 34).

We encourage the Board to study this matter further, gather more empirical evidence on the usefulness of the proposal and evaluate the cost benefit implications of expanded auditor reporting.

Although the auditor is not expected to provide information about the company that has not been made publicly available by the company, such information may be provided by the auditor if such information is necessary to describe the principal considerations used to determine that a matter is a CAM or how the CAM was addressed in the audit[2]. This exception language along with the requirement to reference management's existing disclosures provides auditors with undue leverage to compel disclosure of information that may not otherwise be required or necessary. We encourage the PCAOB to clarify in the Re-proposal that that it is not appropriate for the auditor to be the original source of information unless a matter continues to be unresolved with management and the audit committee. Communication to the audit committee of unresolved differences should be sufficient to drive appropriate resolution and adequately protect investors.

In addition, as a consequence of the PCAOB's inspection process, auditors will have a natural tendency to identify more rather than less CAMs. This concern is supported by the impact of PCAOB inspection findings on audits of internal controls over financial reporting, which we, along with other affected companies, have recently discussed with the PCAOB in numerous meetings and forums[3]. We fear the desire to avoid being second guessed by the PCAOB will provide further incentive for auditors to compel management to disclose non-public information, resulting in significant unnecessary cost, time and effort related for preparers. A significant consequence of the Re-proposal is that registrants may be compelled to provide significant incremental disclosures, which is inconsistent with the general disclosure framework for registrants who are governed by SEC guidance when determining what to disclose, rather than PCAOB standards.

Based on disclosures under the relatively recent and similar regulations implemented in the United Kingdom, we are also concerned that CAM disclosures may evolve over time to include subjective information that is not appropriate in the auditor's report. In particular, the 2015 auditor's report for Rolls-Royce Holdings plc has been mentioned as an excellent example by PCAOB representatives and includes subjective assessments such as:

- We found the degree of caution/optimism adopted in estimates…to be slightly less cautious than in the previous year, but balanced overall; and
- …the financial statements have been prepared on the basis of appropriate accounting policies, reflect balanced estimates compared to the mildly cautious estimates made last year…

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[2] Note 2 to paragraph .14 of Proposed AS 3101 included in Appendix 1 to the Re-proposal (page A1-9)

[3] Meetings with the PCAOB were held with members of the Financial Executives International Committee on Corporate Reporting (CCR). CCR member companies represent approximately $5 trillion in market capitalization and actively monitor standard setting activities of the PCAOB. Wells Fargo is a member and current chair of CCR.

While these assessments far exceed what is required by the Re-proposal and such disclosures may be unlikely in the heavily regulated and litigious environment in the U.S., it is conceivable that such disclosures could eventually materialize.

We are supportive of the proposed inclusion of a materiality threshold for the identification and disclosure of CAMs. However, until the PCAOB addresses its guidance to the audit firms to eliminate clearly trivial matters from their examination findings it is unlikely to have much effect on balance sheet related matters as long as materiality thresholds for the balance sheet and income statement items remain the same. Moreover, given that matters which are material should already be disclosed in the notes to the financial statements and/or management's discussion and analysis (MD&A), we question how redundant disclosure in the auditor's report is value-relevant.

The example disclosures included in the Re-proposal do not provide compelling evidence that CAM disclosures provide users with value-relevant information. In fact, the example of the allowance for loan losses disclosure only perpetuates the concern that the auditor is providing assurance on a component of the financial statements rather than the financial statements as a whole. Also, the CAM disclosure seems to disclose information that is either not required or necessary. Management is already disclosing any relevant material information in either the notes to the financial statements, MD&A or both. Lastly, it is unclear what incremental value users will derive from the description of procedures performed by the auditors. Given the litigious environment in the U.S., such information will be boiler plate by necessity, i.e., reading legal contracts, tested accuracy of assumptions, and using specialists. It is unclear how this information will help users better analyze financial statements.

Moreover, an audit of a global entity is complex and involves a significant number of individual audit and accounting issues. Many issues that are considered in the normal course of an audit of a complex organization may nevertheless fall within the definition of a CAM given the professional judgments and estimates involved, (e.g., credit impairment, fair value measurements and hierarchy, derivatives and hedging activities, business combinations, etc.). These issues are regularly considered as part of the accounting issue resolution process of a global organization and the potential list of items that satisfy the overly broad definition of a CAM could be endless.

Instead of the disclosure of CAMs, we encourage the Board to consider an alternative that will draw users' attention in the auditors' report on the registrant of the significant accounting policies and estimates in the financial statements and MD&A. This can be accomplished by referencing the disclosure of these items, i.e., location and page number, and including a statement indicating that the auditor's report should be read in conjunction with management's disclosures of significant accounting policies and estimates. This approach avoids the inference that the auditor is providing assurance on separate components of the financial statements and would correspond with areas that receive most attention from auditors during the audit.

It is important to remember that qualified knowledgeable professionals can have reasonably different views, particularly related to assumptions or estimates that require significant judgment, or when an issue relates to complex matters that require multiple discussions between the auditor and preparer, including situations where it is necessary to consult with the auditor’s national office. The PCAOB and SEC must acknowledge this reality and ensure that requirements of their standards do not inappropriately subject auditors and preparers to litigation. Introducing safe harbor rules may be a reasonable way to avoid such outcomes.

We also have concerns that audit procedures to address the new standard are likely to occur at a critical time during the audit process and may distract auditors and management from completing other critical parts of the financial statement preparation and audit process. This may involve partner and manager time, as well as national office resources, including input from the registrant’s senior management team including internal and external legal counsel, and audit committee members. In some cases, this could result in a delay in filing for certain companies and should be appropriately considered during implementation.

We do not believe that there is any meaningful link between auditor tenure and audit quality and therefore, recommend that this disclosure should not be required in the auditor’s opinion. Including this information in Form AP would be preferable to inclusion in the audit report.

We do support the proposal to move the opinion paragraph to the beginning of the report as it is our belief that most readers of auditor's reports are mainly interested in whether a company has received an unqualified opinion from its auditor. We also support inclusion of a statement that the auditor is required to be independent and the added language clarifying “whether due to error or fraud” when describing the auditor’s responsibilities.

We appreciate the opportunity to comment on the proposal. If you have any questions, please contact me at (415) 222-3119.

Sincerely,

/s/ Richard D. Levy

Richard D. Levy
Executive Vice President & Controller