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Power by Association℠

Edison Electric Institute

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

Rulemaking Docket No. 34

The Edison Electric Institute (EEI) respectfully submits our comments on the Public Company Accounting Oversight Board's (PCAOB) *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements* No. 2011-003 (Concept Release). EEI is the association of United States shareholder-owned electric companies. Our members provide service to 95 percent of the ultimate customers in the shareholder-owned segment of the industry, and represent approximately 70 percent of the United States electric power industry.

EEI and its member companies have several concerns about the alternatives proposed in the Concept Release as discussed further below. Our comments are organized in the following sections as set forth in the Concept Release:

1. Auditor's Discussion and Analysis (AD&A),
2. Required and expanded use of emphasis paragraphs,
3. Auditor assurance on other information outside the financial statements, and
4. Clarification of language in the standard auditor's report.

Auditor's Discussion and Analysis

The Concept Release discusses that the intent of an AD&A would be for the auditor to provide in a narrative format his or her views regarding significant matters, including management's judgments and estimates, difficult or contentious issues and areas where management could have applied different accounting. We believe that management is responsible for the financial statements and the disclosures set forth therein. The Audit Committee of a Board of Directors (Audit Committee) is the appropriate governance body, as discussed below, to provide oversight of management and to engage the auditors in open and transparent communication of their work and the quality of a company's financial statements and disclosures. The auditor's responsibility is to obtain reasonable assurance about whether the financial statements present fairly, in all material respects, the results of an entity in conformity with U.S. GAAP and with larger public companies, to opine on an entity's internal control over financial reporting. An auditor exercises professional judgment in accordance with the auditing standards in the design and execution of an audit plan to opine on the accuracy and completeness of the financial statements as a whole. The auditor does not opine on individual matters. Accordingly, subjective information about an entity's financial statements presented by an auditor, such as a discussion of management's judgments and estimates, could create greater confusion, and in our view, would not result in providing decision useful information to investors.

An AD&A would significantly increase the cost of and time to complete the audit due to the additional effort that would be required for the auditor to obtain the understanding necessary of the day-to-day operations of the company and management's decisions and estimates required to be able to provide meaningful disclosures. In addition, an increase in effort would be required to resolve and clarify differences between the AD&A and the other information in the financial statements and potentially require further time to make information available to investors. Further, if an auditor provides subjective information that is relied upon for investor decisions and is later proved to be incorrect, the auditor and the company could be subject to litigation.

Current auditing standards already require the auditor to report the items proposed in the Concept Release to the Audit Committee. The Audit Committee, as a part of the shareholder elected Board of Directors, has the authority and responsibility to oversee the financial reporting process on behalf of investors and to resolve any specific accounting treatments that they are not comfortable with. This auditing standard should provide the level of assurance that these judgmental areas have been adequately addressed within the financial statements. The auditor also reporting these items to the investors could not only potentially confuse an uninformed investor, but would also appear to undermine the governance role of the Audit Committee.

If the auditor is required to present subjective information in the form of an AD&A, communications between the auditor, management and the Audit Committee could become less transparent. Effective communication between these parties is important to uphold the transparency of the audit resulting in a quality audit. There is also a risk of disclosing information that is confidential to the company in an AD&A. GAAP prescribes the standards that must be followed by management when producing financial statements, which are then reviewed by the SEC. If the investors require changes to the disclosure and reporting requirements under

GAAP, this should be completed through the standard setting process and not via the proposed AD&A.

Emphasis Paragraphs

The Concept Release proposes that emphasis paragraphs could be required and their use expanded, in which the auditor would discuss such things as significant management judgments and estimates and areas with significant measurement uncertainty. The PCAOB's auditing standard AU 580.11 already requires an auditor to include an emphasis paragraph in certain situations and allows auditors to include them when the auditor wishes to emphasize a matter in the financial statements. Requiring and expanding the use of emphasis paragraphs may lead to standardized disclosures in the auditor's opinion that are not meaningful to investors. As discussed above, significant management judgments and estimates and significant risks are already discussed with the Audit Committee. We believe the existing guidance for the use of emphasis paragraphs in the audit report is appropriate.

We believe that ASC 275, *Risks and Uncertainties,* provides guidance for disclosures in the footnotes that addresses some of the concerns in this area. However, to the extent that these disclosures should be expanded to address significant judgments and estimates in the financial statements and footnotes, we believe that the accounting standard setting process is the appropriate forum as opposed to the auditor's opinion.

Auditor Assurance on Other Information

Another alternative presented in the Concept Release is for the auditor to provide assurance on information outside the financial statements, such as Management's Discussion and Analysis (MD&A), earnings releases, and/or non-GAAP financial information. Increasing the scope of the audit to include this other information could significantly increase the costs of the audit and could also put at risk the company's ability to timely file its financial statements in compliance with regulations.

Current auditing standard AU 550 already requires that auditors review other information accompanying the audited financial statements, such as MD&A, to ensure consistency with the audited financial statements. Simply providing assurance on other information outside the financial statements would not provide additional useful information for investors. We note there is a PCAOB attest standard detailing the requirements for attest engagements with respect to MD&A (AT 701), however, these engagements are typically not performed. Rather than a mandate, we believe that the Audit Committee is the appropriate place to make a judgment whether such undertaking is beneficial to their investors. Lastly, we believe that a regulatory mandate to audit additional information should only be made if a comprehensive analysis shows compelling evidence that the benefits outweigh the costs.

Clarification of Language in the Standard Auditor's Report

The fourth alternative discussed in the Concept Release is the clarification of certain terms in the standard auditor's report, such as reasonable assurance, and the clarification of auditor responsibilities, such as the auditor's responsibility to detect fraud. We appreciate the investment community's desire for additional understanding and do not object to the audit community providing the factual information proposed by this alternative.

If guidance is issued directing auditors to clarify their responsibilities and certain terms in the audit opinion, to avoid confusion, the EEI recommends amending the standard auditor's opinion by providing standardized language to be used in all auditor reports to maintain consistency between all auditors and all entities.

Conclusion

We appreciate the opportunity to comment on this Concept Release. As discussed above, we do not support the alternatives set forth in the Concept Release, including a requirement of the auditor to present subjective information on an entity's financial statements in their opinion. The auditor's views regarding significant matters, such as permissible alternative accounting treatments, could undermine the entity's financial statement presentation and disclosures and create greater confusion with the investor public. Furthermore, we do not support increasing mandates by the PCAOB of auditors that increase cost of operations of U.S. registrants, without measureable benefits to investors. If additional disclosures are necessary, we believe they should be established through the standard setting process and provided by management. If an auditor has concerns, they should be addressed with the Audit Committee whose role is to address those concerns.

We would be pleased to discuss our comments in further detail and provide any additional information that you may find helpful in addressing these important issues.

Sincerely,

Richard F. McMahon, Jr.