

**James H. Quigley**  
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September 8, 2015

Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: File Number S7-13-15**

I appreciate the opportunity to comment on the SEC's Concept Release, *Possible Revisions to Audit Committee Disclosures* (the "Concept Release"), on behalf of the Audit and Examination Committee ("A&E Committee") of Wells Fargo & Company ("Wells Fargo"). Wells Fargo is a diversified financial services company with over \$1.7 trillion in assets providing banking, insurance, investments, mortgage, and commercial and consumer finance services. I am a member of the board of directors of Wells Fargo and two other public companies and serve as chair of Wells Fargo's A&E Committee. I am also a trustee of the International Financial Reporting Standards Foundation and a member of the board of trustees of The German Marshall Fund of the United States. Previously, I served as chief executive officer of Deloitte Touche Tohmatsu Limited (DTTL, the Deloitte global network), from 2007 to 2011, and as chief executive officer of Deloitte LLP, the U.S. member firm of DTTL, from 2003 until 2007. I have also served previously as co-chairman of the TransAtlantic Business Dialogue, a director of the Center for Audit Quality, a trustee of the Financial Accounting Foundation, a member of the U.S. Securities and Exchange Commission Advisory Committee on Improvements to Financial Reporting, and a member of numerous committees of the American Institute of Certified Public Accountants. My comments on the Concept Release are informed by my collective experience in these roles.

I agree that certain aspects of audit committee disclosures could be enhanced. However, as with the recent proliferation of corporate governance disclosures in SEC and bank regulatory filings, there is a risk that these enhancements will only add to the existing complex patchwork of boilerplate disclosures. It is debatable whether these disclosures provide incremental value to investors. Accordingly, any enhancements should be balanced such that they are incrementally useful, but also appropriate for the public domain and not unduly costly to reporting entities.

Acknowledging the realities of the legal and regulatory environment in the U.S., it would be unwise to significantly expand audit committee disclosures by adopting practices that have been implemented in jurisdictions with starkly different legal and regulatory environments. Moreover, concerns about litigation and potential second guessing of management judgment may have the perverse effect of limiting the interaction and communication between the committee, management and the auditor as a means to avoid these disclosures.

The proposed disclosures are disproportionately focused on the auditor relationship which is reminiscent of the recent proposal by the PCAOB on critical audit matters<sup>1</sup>, particularly disclosures related to audit strategy, results of the audit and significant audit risks. In a separate letter to the PCAOB dated December 2, 2013 (see Attachment A), Wells Fargo management expressed its opposition to the PCAOB proposal and I share the concerns of management expressed in that letter. I am deeply concerned disclosures of this nature could create confusion as to the roles of management, the auditor and audit committee and ultimately have an adverse impact on corporate governance.

In my role as chair of the A&E Committee as well as serving as a director of other organizations, I am unaware of investor inquiries regarding the role of the audit committee, the auditor relationship or auditor retention process - even through the most recent credit crisis. The selection or retention of the auditor is reliant on the financial and corporate governance competency of committee members as well as a continuous and effective interface between management, the auditor and the audit committee. This decision is a highly judgmental process and in the litigious environment in the U.S. the details of this decision may not be appropriate for public disclosure. In lieu of such an approach, I believe disclosure of management and the committee's rationale for recommending retention or selection of the external auditor may be more useful.

While I do not believe incremental disclosure of an audit committee's oversight of the auditor relationship is necessary, more transparency into Part II of PCAOB inspection reports ("Part II") would provide a useful tool to assist the committee in its evaluation of the auditor and the audit firm's commitment to quality. Although the PCAOB is prohibited by Sarbanes Oxley from making public disclosure of Part II, the auditor could elect to make Part II available to audit committees to augment the committee's ability to assess audit quality. The SEC could encourage auditors to share more information about Part II with the audit committee.

Audit committees are responsible for many matters in addition to the auditor relationship, all of which are very relevant and of equal importance to the audit. Beyond oversight of the audit process and the external auditor, the charter typically describes the committee's responsibilities related to oversight of financial reporting, internal controls, compliance and risk management. Transparency to these responsibilities exists today via public access to the audit committee charter. Yet, users may benefit from a discussion of the key aspects of these responsibilities with an emphasis on financial reporting and internal control and how the committee acted upon them during the reporting period. To be effective and responsive to the concerns expressed above, these disclosures should be both voluntary and flexible (i.e., principles based).

I do not believe disclosure of the name of the audit partner is necessary. Given that auditors are already subject to a comprehensive quality control regime (e.g., Sarbanes-Oxley, PCAOB inspections) as well as meaningful disincentives, inclusive of financial penalties, it is unlikely that such a disclosure would enhance audit quality. I do not object to the disclosure of auditor tenure but do not believe there is a correlation between audit tenure and audit quality.

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<sup>1</sup> PCAOB Release No. 2013-005, PCAOB Rulemaking Docket Matter No. 34

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I appreciate the opportunity to comment on the issues contained in the Concept Release. If you have any questions, please contact Rich Levy, Executive Vice President and Controller at Wells Fargo, at [REDACTED] or me at [REDACTED].

Sincerely,

/s/ James H. Quigley

James H. Quigley  
Board Member  
Audit and Examination Committee Chair

## Attachment A – Response from Wells Fargo Management on Critical Audit Matters Proposal



Richard D. Levy  
Executive Vice President & Controller

MAC A0163-039  
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San Francisco, CA 94104

Fax

December 2, 2013

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

Submitted via electronic mail

**Re: PCAOB Release No. 2013-005, PCAOB Rulemaking Docket Matter No. 34**

Wells Fargo & Company (Wells Fargo) is a diversified financial services company with over \$1.5 trillion in assets providing banking, insurance, investments, mortgage and consumer finance services. We appreciate the opportunity to comment on *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report, and Proposed Amendments to PCAOB Standards Related to the Proposed Auditor Reporting Standard*.

We support efforts to improve audit quality that will enhance investor confidence in and understanding of the audit process and the auditor's responsibilities related to other information. However, we do not support the Board's proposals in their current form.

### **Critical Audit Matters ("CAMs"):**

We are most concerned that the Board's proposal to discuss critical audit matters ("CAMs") in the auditor's report may be construed as an implicit qualification of the audit creating a perception that there may be weaknesses or deficiencies in management's judgment, financial statement estimates or internal control environment. The pass/ fail model has served constituents well precisely because an opinion is expressed on the financial statements *taken as a whole*. While we strongly support the decision to retain the pass/ fail model, the subjective nature of the definition, interpretation and ultimately the description in the auditor's report of CAMs increases the likelihood that users may perceive different levels of assurance on different areas of the financial statements. If the perception of the audit opinion is compromised, all stakeholders will be ill-served as corporate governance, auditor independence and user investment decisions could be adversely impacted.

Sophisticated users understand that extensive information related to matters that may qualify as CAMs is already available in existing disclosures. Quarterly and annual financial reports filed with the SEC already include extensive disclosure of critical accounting policies, significant estimates, business and operating trends, as well as financial and operating risks. This is compounded by an ever-increasing

disclosure burden as standard setters, regulators<sup>1</sup> and non-authoritative bodies<sup>2</sup> continue to promulgate additional disclosure requirements. Given the litigious environment in the U.S., preparers are often reluctant to remove existing disclosures. Moreover, due to the nature and sheer volume of these disclosures, a meaningful portion may occur outside of periodic SEC filings. While sophisticated users understand and know how to find these disclosures, all of this contributes to a complex patchwork of disclosures that may hinder the casual user's ability to fully comprehend the information that is readily available. Accordingly, we believe any user frustration or confusion regarding the audit process is symptomatic of a larger issue, disclosure overload, that the Board should address with the SEC and other standard setters and regulators to develop a more robust, transparent and user friendly disclosure framework.

Many entities, including financial institutions, operate in complex industries with unique challenges based on the prevailing business or economic climate. During the course of an audit, auditors naturally may encounter areas that involve difficult, subjective or complex judgments that require communication to the audit committee, consultation with experts or require extensive corroboration and documentation. We are concerned that the practical application of the identification, documentation and justification of conclusions regarding inclusion of CAMs in the auditor's report will result in an overabundance of caution by the auditors. In other words, auditors will be motivated to include more rather than less CAMs in the auditor's report to avoid being second guessed during the PCAOB inspection process. Consequently, the auditor's report, at the expense of clarity of the auditor's opinion, will inappropriately become a mechanism to communicate matters of importance or significance related to an entity's financial reporting.

Financial statement users may confuse the roles of the auditor, management and the audit committee. Management is responsible for preparing and filing all financial reports. The financial reporting process is overseen by the audit committee, which oversees a reporting entity's accounting policies, internal controls, financial reporting and the audit process. The auditor should never be the first source of information, provide disclosure of information that is not otherwise required to be disclosed by management or have the appearance that it is making financial reporting decisions on behalf of management. Any confusion of these roles could undermine both the reporting entity's corporate governance as well as the auditor's independence.

It is also likely that reporting entities will incur incremental costs associated with the increased documentation requirements as auditors will now be compelled to justify in their workpapers why certain items either qualify or do not qualify as CAMs. When coupled with the potential harm to investors, corporate governance and auditor independence, we do not see any incremental benefit to users from the Board's proposal. Notwithstanding the Board's stated objective, it appears that the practical purpose of the Board's proposal is to highlight significant disclosures and risks for users of financial statements. Given the level of disclosure information that is already available to users and the costs involved, we cannot support the Board's proposal.

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<sup>1</sup> Financial institutions subject to Basel 3 will be required to provide extensive qualitative and quantitative disclosures of capital, liquidity and other risk information starting in 2014.

<sup>2</sup> In our industry, certain regulators are strongly encouraging compliance with extensive risk disclosure recommendations of the Enhanced Disclosure Task Force ("EDTF"). The EDTF is a task force created by the Financial Stability Board and comprised primarily of industry analysts.

**Reporting on Other Information:**

We agree that users may benefit from a clearer articulation in the auditor's report of the auditor's responsibility for the other information in annual reports filed with the SEC. However, we are concerned that the Board has proposed a more stringent standard of auditor involvement with other information. Rather than "read and consider" other information, the auditor will be required to "read and evaluate" whether other information is materially consistent with the audited financial statements. We understand that, as a result of this change, some accounting firms believe substantial incremental auditing procedures will be necessary to satisfy this new requirement. It is unclear to what extent the Board intended to substantively change the auditor's responsibilities related to other information or if the Board simply intends to enhance users' understanding of auditors' existing responsibilities related to other information. If it is the Board's intent to substantively change the auditor's existing responsibilities, we encourage the Board to consider whether it is necessary for users to expect auditors to provide incremental assurance on other information as rigorous and effective procedures already exist to ensure other information is materially consistent with the audited financial statements.

Current laws and regulations require CEO and CFO certifications of disclosure required in the annual and quarterly reports, as well as the establishment of disclosure controls. Public companies are subject to independent audit committee oversight of annual and quarterly financial reporting. Moreover, many disclosures outside of the primary financial statements, such as in the MD&A, are more subjective or forward looking. These disclosures are based on management's analysis and insights and often may not be objectively verifiable. We believe it would be extremely difficult for the auditors to evaluate this information effectively. Given the inherent limitations associated with such an increase in the auditor's scope, and the difficulties this would pose to both auditors and management, it may be necessary to curtail the amount or type of information disclosed in the MD&A, ultimately reducing the overall insight and benefit to users. Lastly, questions regarding the auditor's independence may also surface as an increased level of assurance on subjective or forward looking information may be seen as advocating or challenging the decisions of management.

We encourage the Board to field test how accounting firms will apply the proposed guidance to understand whether the proposal will be unduly costly to preparers. Given the expected increase in auditing procedures and level of auditor experience necessary to provide assurance on potentially subjective and forward looking information, we expect a meaningful increase in recurring audit fees. We do not believe the increase in audit fees, as well as any indirect costs related to increased management time and focus, justify a change in scope. While we support clarification of the auditor's report to explain the auditor's responsibilities related to other information, we do not support the proposal as written. We encourage the Board to retain the existing requirement to "read and consider" and revise the proposed language in the auditor's report accordingly.

**Auditor Tenure:**

While we do not object to the disclosure of auditor tenure in the auditor's report, we do not think it is necessary as there is not a correlation between auditor tenure and audit quality<sup>3</sup>.

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<sup>3</sup> Please refer to our comment letter on PCAOB Rulemaking Docket Matter No. 37, dated December 14, 2011.

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PCAOB  
December 2, 2013  
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We appreciate the opportunity to comment on the proposal. If you have any questions, please contact me at [REDACTED].

Sincerely,

/s/ Richard D. Levy

Richard D. Levy  
Executive Vice President & Controller

cc: Paul Beswick – Securities and Exchange Commission  
Kathy Murphy – Office of the Comptroller of the Currency  
Stephen Merriett – Federal Reserve Board  
Robert Storch – Federal Deposit Insurance Corporation  
Donna Fisher – American Bankers Association  
David Wagner – The Clearing House Association