

March 18, 2024

Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803

Re: Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations (PCAOB Release No. 2023-003)

Dear Ms. Brown:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to provide additional comments on the Public Company Accounting Oversight Board's (PCAOB) proposal to amend PCAOB auditing standards related to the auditor's responsibility for considering a company's noncompliance with laws and regulations. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

Following the recent Roundtable hosted by the PCAOB, APCIA would like to re-emphasize our concerns about two major issues:

- The proposed rule's elimination of the distinction between noncompliance that has a direct effect on a public company's financial statements, versus noncompliance that has an indirect effect on those statements, and
- The proposed rule's use of the phrase "could reasonably have a material effect" as the threshold for identifying laws and regulations relevant to the audit of a company's financial statements.

APCIA would also like to endorse the comments made by The Travelers Companies, Inc. in its March 18, 2024 comment letter.

The current distinction between direct and indirect effects is necessary to enable auditors to appropriately allocate their resources to the areas in which there is the greatest likelihood that noncompliance would have a material effect on a company's financial statements. This is especially true for participants in a highly regulated industry such as insurance, where companies are subject to a myriad of differing laws and regulations.

The use of the phrase "could reasonably have a material effect" conflicts with the definition of materiality in both SEC and FASB guidance, which uses the stronger word "should." The SEC and FASB guidance is consistent with the Supreme Court's statement in *TSC Industries vs. Northway, Inc.* that a fact is material "if there is a substantial likelihood that a reasonable

shareholder would consider it important.”¹ Using a different definition in this rule would produce confusion and increase the risk of inconsistent application of this guidance.

For these reasons, APCIA again urges the PCAOB to withdraw the proposed rule or amend it to appropriately address the issues we have raised. We also recommend that the PCAOB conduct a cost-benefit analysis of the proposal, as we believe the costs of complying with the proposal would be substantial and would exceed any benefit.

Thank you for considering the points addressed in this letter, and please do not hesitate to contact us if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Step W Brodie". The signature is fluid and cursive, with a long horizontal stroke at the end.

Stephen W. Brodie
Vice President, Financial & Counsel

¹ See *TSC Industries v. Northway, Inc.*, 426 U.S. 438, 439 (1976)