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March 18, 2024

Ms. Phoebe W. Brown

Secretary

Public Company Accounting Oversight Board

1666 K Street, N.W.

Washington, D.C. 20006-2803

Re: Proposing Release – Amendments to PCAOB Auditing Standards related to a Company’s Noncompliance with Laws and Regulations (PCAOB Release No. 2023-003, June 6, 2023: PCAOB Rulemaking Docket Matter No. 051)

Via: comments@pcaobus.org

Dear Ms. Brown:

The American Council of Life Insurers (“ACLI”) appreciates the opportunity to provide additional comments following the recent Roundtable that was hosted by the PCAOB on March 6th regarding Release No. 2023-003, PCAOB Rulemaking Docket Matter No. 051 with the above captioned title (the “proposal”) as issued by the PCAOB on June 6, 2023.

The ACLI would like to communicate its support for the letter submitted by The Travelers Companies, Inc. (“Travelers”) dated March 18, 2024. In their letter, Travelers noted two follow-up comments related to the growing complexity and risk of noncompliance with the laws and regulations to which a company is subject and the need to have a risk-focused audit standard that provides practical but effective guidance to auditors in planning appropriate audit procedures.

The two areas are:

- elimination of the distinction of noncompliance that has a direct versus indirect effect on a public company’s financial statements;
- Use of the threshold, “could reasonably have a material effect”, by the auditor in identifying laws and regulations relevant to the audit of a company’s financial statements.

Without repeating Travelers’ full letter, we wanted to register our agreement with the concerns noted in their letter.

Regarding the distinction between direct versus indirect effect on the financial statements, we agree with Travelers’ assertion that it would be inappropriate to abandon the distinction between

a direct versus indirect effect of the financial statements. As the Travelers' letter notes, the distinction and prioritization these effects are important, particularly for industries that are highly regulated like insurance.

Regarding the use of the threshold, "could reasonably have a material effect", by the auditor in identifying laws and regulations relevant to the audit of a company's financial statements, we also agree with the concerns noted in Travelers' letter. We agree that the auditors should be responsible for assessing management's processes and controls for identifying the laws and regulations with which it must comply and not to duplicate management's work. We also agree that the threshold "could reasonably have a material effect" is in contradiction with the accounting and SEC definition of "material", and as noted, would not only cause confusion but would also result in uneven interpretation and application by auditors and others.

We think it would be worthwhile to emphasize how onerous to auditors the proposal would be – detailing the regulatory environment of all 50 states, pointing out that laws and regulations of foreign jurisdictions would be in scope for some companies, etc. Maybe showing concrete numbers/stats could help further demonstrate that the proposed ask of auditors is beyond overwhelming.

Given the importance of this audit rule, particularly as it impacts highly regulated industries such as insurance, we recommend that once the PCAOB completes its review of comments and consideration of the discussion from the Roundtables, a final draft be re-exposed for comment to allow interested parties the opportunity to provide comments with the goal of having an effective and risk-focused audit rule.

We appreciate the opportunity to provide additional comments on the proposal and would be pleased to discuss our views or answer any question you may have.

Very truly yours,

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

Mike Monahan
Senior Director, Accounting Policy