August 12, 2016

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

Re: PCAOB Rulemaking Docket Matter Number 034

Dear Madam Secretary:

We are pleased to submit our comments on the *Proposed Auditing Standard, PCAOB Release No. 2016-003 on Rulemaking Docket Matter #034 ("Re-Proposal")*. We serve as the Audit Committees ("Committee") for Edison International (NYSE:EIX) and Southern California Edison Company. Edison International ("Edison" or the "Company"), an integrated energy company, generates and distributes power, primarily through its wholly owned subsidiary, Southern California Edison Company, serving 14 million people across a 50,000 square mile area in Southern California. Our following comments are based not only on our experience serving Edison, but also from our experiences as senior leaders in business, academia and government.

Auditor's Report

Our corporate governance system consists of shareholders electing the Board of Directors ("Board"), as their representatives, to provide management oversight. The Board, in turn, delegates to the Audit Committee oversight of financial reporting, including the system of internal controls and risk management. The Audit Committee has sole authority to retain the independent auditor ("Auditor") and, therefore, primary responsibility for the assessment and approval of those services. Management is responsible for the financial statements and disclosures in accordance with the United States' Generally Accepted Accounting Principles ("GAAP") and Securities and Exchange Commission ("SEC") rules and regulations.

The Public Company Accounting Oversight Board's ("PCAOB") states that the Re-Proposal is attempting to resolve the information asymmetry that exists between consumers of financial reports and preparers of those reports, including third parties such as the independent accountants. We have a fundamental belief that consumers of financial reports desire information about the subject of the report, the company itself. This includes the risks and issues facing the company, the company's financial results and the critical judgments and estimates that are made in preparing the financial results. Moreover, experienced and knowledgeable consumers read management's financial reports as a whole, including the Risk Factors and Management's Discussion and Analysis as required by the SEC. We believe the audit committee has the requisite knowledge, perspective and authority to oversee that the

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reporting entity's management discloses these matters in a manner commensurate with their materiality and relevance to investors. Any information asymmetry should be dealt with by revisions to GAAP and SEC disclosure rules and not through the PCAOB. Nevertheless, we recognize that some Independent Auditor Regulators outside the U.S. have or will be requiring changes to the Independent Auditor's Report. As a result, the remainder of our comments will focus on two aspects of the Re-Proposal—Critical Audit Matters and Auditor Tenure.

We commend the PCAOB efforts to consider comments made to the Proposal Release No. 2013-005 and make improvements in this Re-Proposal to the Auditor's Report, such as its decision to retain the current "pass/fail" model of the Auditor's report and the introduction of the concept of materiality.

The Re-Proposal defines a Critical Audit Matter ("CAM") as any matter that was communicated or required to be communicated to the Audit Committee that involves audit specific information which is determined to be either challenging, subjective or complex and is material to the financial statements and related disclosures. The SEC requires management to disclose matters for which information is incomplete and the financial impact is not known but which might develop into a significant or material matter. The Audit Committee and often, even the Board, are informed promptly of these matters. The Audit Committee oversees management's financial reporting and disclosure process and the Auditor provides an independent assessment of the disclosures. The timing of when a matter rises to the level of materiality varies. The introduction of materiality in deciding what constitutes a CAM could cause the Auditor to include a matter whose level of materiality has not yet been determined for fear of being second-guessed by a PCAOB inspector.

Materiality is both a quantitative and qualitative assessment. The Audit Committee approves the Auditor's audit plan which includes quantitative materiality levels. These quantitative materiality levels can increase or decrease as the financial year progresses due to different business conditions, and the Auditor informs the Audit Committee of such quantitative changes. A matter might meet the quantitative materiality level as presented in the audit plan but may not meet both the quantitative and qualitative materiality assessment relative to the business and the financial statements, taken as a whole.

The Auditor's Report reader could place inappropriate weight on the CAM instead of disclosures provided by management in the financial statements and Management Discussion and Analysis of Financial Condition and Results of Operations (including critical accounting policies and estimates.) CAMs could also duplicate Management's disclosures. Conversely, if a matter is excluded from the Auditor's Report and later develops into a material matter and a CAM, both the Auditor and the Audit Committee could be subject to criticism and litigation. Finally, the likely expansion of the Auditor's Report from the inclusion of CAMs could be very confusing to many of its readers.

We encourage the PCAOB to adopt a more principled-based approach to the definition of a CAM, similar to the IAASB. The IAASB defines Key Audit Matters "as those matters, that in the Auditor's professional judgment were of most significance to the audit of the financial statements in the current period. Key Audit Matters are selected from matters communicated with those charged with governance."

We have additional, significant concerns because the CAMs:

- May result in boilerplate language covering a number of generic audit topics relating to the issuer's industry (e.g. rate regulated matters);
- May result in a "first mover" disadvantage because CAMs reported by later filers in the same industry were omitted;
- May cause increased costs and filing deadline pressures because there would need to be close collaboration and communication between management, the Auditor and the Audit Committee as matters that might rise to the level of a CAM are not always known well in advance of the filing deadline;
- May cause the Auditor's Report to become a laundry list of matters over time because the Auditor may be reluctant to remove a CAM in subsequent reporting periods. The Re-Proposal provides no guidance for the removal of a CAM;
- Appear to contradict the SEC's disclosure effectiveness to be more meaningful to users of financial reporting. The Auditor might prefer to err on "more is better" concept in their Report detracting from the truly important matters with descriptions of the less important for fear of criticism and litigation.

The Re-Proposal requires the Auditor to disclose the firm's tenure with the company. We believe this disclosure is unnecessary. We believe that it is important that consumers of financial reports understand how the Audit Committee determines its recommended appointment of the audit firm. Required disclosures, such as what is being proposed, can detract from what the Audit Committee views as the most critical considerations. In the case of EIX, the Audit Committee discloses the tenure of the audit firm in our Proxy report to shareholders and describes pertinent factors considered when recommending appointment of the audit firm. Research has not concluded definitively that the tenure of the audit <u>firm</u> is correlated with audit quality and/or independence. Our appointment recommendation considers whether there is frequent and sufficient change in personnel who are responsible for preparation, attestation and oversight of the financial reporting process. The PCAOB requires mandatory rotation of the engagement audit partner every five years, the EIX Audit Committee Chair rotates every four years, Audit Committee members change, and Chief Executive Officers, Chief Financial Officers, Chief Accounting Officers, Controllers also regularly change as part of EIX's succession planning.

Thank you for considering our views.

Yours truly,

The Audit Committees of Edison International and Southern California Edison.

Peter J. Taylor, Chair

Vanessa C. L. Chang

Vanessa C. L. Chang, Member

James T. Morris, Member

Ellen O. Tauscher, Member