



**CAPITAL  
GROUP<sup>SM</sup>**

**Capital Group**

6455 Irvine Center Drive  
Irvine, California 92618

Phone (949) 975-5000

**VIA ELECTRONIC DELIVERY**

December 9, 2013

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

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

Dear Office of the Secretary:

Capital Group Companies, Inc. ("Capital") is one of the oldest and largest global investment management firms in the nation. We appreciate the opportunity to provide comments on the Proposed Auditing Standards, *The Auditor's Report on an Audit of Financial Statements*, and *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report* (herein referred to as "Proposed Standards"). These comments are informed by our experiences as preparers of audited financial statements of Capital and its affiliated companies as well as the American Funds. These comments reflect our own views and not necessarily those of Capital or other Capital associates.

We support the Public Company Accounting Oversight Board's (the "Board") continued efforts to increase the informational value, relevance and usefulness of the auditor's report to investors and financial statement users. However, we believe that certain key aspects of the Proposed Standards will not achieve this objective.

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## **Critical Audit Matters**

The objective of an audit is to provide an opinion on the financial statements. Consistent with this objective, we support the Board's endorsement of the existing "pass/fail" model for the auditor's report as it clearly and concisely conveys the auditor's opinion regarding whether the financial statements are fairly presented. However, we are concerned that the inclusion of one or more critical audit matters ("CAMs") would not be additive to the financial statement users' understanding and obscure the actual pass/fail conclusion.

The Proposed Standard indicates "it is expected that, in most audits, the auditor would determine that there are critical audit matters". With this statement, there is an expectation created that auditors would include more rather than fewer CAMs in their audit reports. We are concerned financial statement users may misinterpret the communication of multiple CAMs as indication of an issue with the quality of the financial statements, particularly for certain entities like investment companies, which may have few or even no CAMs due to their unique characteristics.

For example, investments generally make up substantially all of an investment company's assets; and an auditor is currently required to verify the existence (shares/par) and valuation of all investments. Income and realized/unrealized gain/loss are derived from these investments; and expenses, which generally represent a small percentage of assets, are primarily based on contractual obligations. In certain cases, management estimates related to fair valuation may be required, and thus, will likely be deemed a CAM. However, investment companies already include extensive disclosure in their offering memorandums/ prospectus and financial statement footnotes related to fair valuation (pursuant to ASC 820, *Fair Value Measurements and Disclosures*). These disclosures provide financial statement users with a high degree of insight and transparency to the entity's fair valuation methodology. The addition of a CAM related to fair valuation would be duplicative of the critical accounting policies already disclosed in the notes to the financial statement, and therefore not additive to the financial statement users' understanding. We also believe that there is a risk that such disclosure in the auditor's report would over time become "boiler plate" for similar issuers in the same industry and thus be of limited value to financial statement users. Accordingly, we believe there should be a presumption that the auditor's report for most investment companies would not include disclosure of CAMs.

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Additionally, as noted in our September 30, 2011 comment letter on the Concept Release related to Reports on Audited Financial Statements (Release No. 2011-003), we believe there is value in the contextual discussion that takes place between the auditors, management and the audit committee that cannot be effectively disclosed in the auditor's report. Audit committee members have the opportunity to question and clarify their understanding through interaction and discussion with the auditor and management. Attempting to capture this discussion and provide the right context within the auditor's report, without providing the opportunity for the further clarification, reduces the value of the disclosure and may lead to erroneous conclusions on the part of the financial statement user.

Lastly, we are concerned that the time and effort devoted to fulfilling the Board's proposed requirements would divert and distract valuable resources of audit firms, management, and audit committees away from the core deliverables of the audit. The inclusion of CAMs in the auditor's report will introduce a high degree of judgment and subjectivity regarding which CAMs to disclose as well as the exact language used to describe the CAM. To provide the necessary level of context surrounding each CAM, the auditor's report would need to be customized for the specific circumstances of each audit and likely require expansive details and multiple pages of disclosure. As a result, significant resources would be spent reviewing and discussing the exact language of the CAM rather than focusing on procedures that truly add value to the audit, or in the case of management, substantive oversight of controls and financial reporting.

The proposal to include CAMs in the auditor's report is expected to benefit the end user and is not designed to have any impact on audit quality. Based on the above points, we do not expect users to experience this benefit, and as such do not support the inclusion of CAMs in the auditor's report.

### **Reporting on Other Information**

Under existing PCAOB standards, the auditor has the responsibility to "read and consider" the other information for material inconsistency against the audited financial statements. Whereas, under the Proposed Standard, the auditor is required to "read and evaluate" the other information and communicate, in the auditor's report, the auditor's responsibilities and results of its evaluation of the other information. We are concerned the Proposed

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Standard would significantly add to the auditor's responsibilities by introducing additional required audit procedures to support the auditor's evaluation and conclusion of the other information. These additional audit procedures will likely add to the cost of an audit. In summary, we are not opposed to including a description in the auditor's report that clarifies the auditor's responsibility for the other information. However, we do not support changing the auditor's responsibility regarding the other information and believe existing requirements in AU Section 550 to "read and consider" the other information are sufficient.

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Thank you for considering these comments. Please feel free to contact any of us should you have any questions or wish to discuss our thoughts on the Proposed Standards.

Sincerely,

Bruce Meikle  
Senior Vice President & Principal Financial Officer –  
The Capital Group Companies, Inc.  
(213) 615-0873

Brian D. Bullard  
Senior Vice President – Fund Business Management Group –  
Capital Research and Management Company  
(949) 975-3708

Jeffrey P. Regal  
Vice President – Fund Business Management Group –  
Capital Research and Management Company  
(949) 975-4451

Brian C. Janssen  
Vice President – Fund Business Management Group –  
Capital Research and Management Company  
(949) 975-6753

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