



December 11, 2013

Office of the Secretary Public
Accounting Standards Board
1666 K Street N.W.
Washington, DC 20006-2803
Via email to comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 34

NIKE, Inc. ("NIKE") appreciates the invitation to comment on the Proposed Auditing Standards regarding 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 Related Amendments to PCAOB Standards (collectively, the "Proposed Standards") issued on August 13, 2013, by the Public Company Accounting Oversight Board ("PCAOB").

NIKE's principal business activity is the design, development, worldwide marketing and selling of high quality footwear, apparel, equipment, accessories and services. We are the largest seller of athletic footwear and athletic apparel in the world, employing over 48,000 people worldwide. Revenues for our fiscal year 2013 ended May 31, 2013, were over \$25 billion. We sell our products to retail accounts, through NIKE-owned retail stores and internet websites, and through a mix of independent distributors and licensees, in virtually all countries around the world. NIKE prepares consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and files financial statements with the Securities and Exchange Commission ("SEC"). Our securities are listed and traded on the New York Stock Exchange.

We appreciate the PCAOB's continued efforts to improve audit quality and provide better reporting for investors and other users of the financial statements since the enactment of the Sarbanes-Oxley Act in 2002 ("the Act"). In particular, we believe making the independent audit committee directly responsible for appointing, compensating and overseeing our auditors has improved audit quality. Due to their experience and knowledge of NIKE and our business, our Audit Committee is in the best position to assess the quality of the audit we receive, the risks associated with the financial statements and the independence of our auditor. The ongoing relationship between our Audit Committee and our auditors allows for a frank evaluation of the quality of our financial statements and our system of internal controls, as well as the overall audit process, allowing the Audit Committee to act in the best interest of our shareholders. In short, we believe the current system has worked well and is effective.

We do not object to certain components of the Proposed Standards, such as including the auditor's statement of independence in the audit report. However, we do not agree with other proposed changes, such as the auditor's discussion of Critical Audit Matters ("CAMs"), the disclosure of the auditor's tenure in the audit report, and the auditor's evaluation of other information in annual reports containing the audited financial statements. In our view, these proposed changes would not provide material benefits to investors and in some cases would create confusion and increase costs. Our support for these conclusions is included below.

Critical Audit Matters

The Proposed Standards would require the auditor's report to include discussion of CAMs. CAMs are described as those areas that involve the most difficult, subjective or complex auditor judgments, posed the most difficulty in obtaining sufficient appropriate audit evidence, or posed the most difficulty to the auditor in forming an opinion on the financial statements. The Proposed Standards cite possible sources of CAMs as: i) items included in the auditor's engagement completion document, ii) items reviewed by the engagement quality reviewer ("EQR"), iii) items included in audit committee communications, or any combination of the three.

Our concerns regarding the proposed discussion of CAMs can be summarized as follows:

- The benefits to investors of these specific disclosures are unclear.
- Significant accounting matters already require disclosure in the financial statements, and in many cases management is required to disclose highly subjective accounting estimates or assumptions. Therefore, these new disclosures do not provide significant new information or insight for investors.
- Discussion of accounting and internal control matters that did not require disclosure under U.S. GAAP or affect the auditor's opinion may create investor confusion, undermine existing accounting and disclosure requirements and weaken investor confidence in the auditor's opinion on the financial statements and the effectiveness of internal controls.
- Determination of what matters are "critical" and should therefore be included in the auditor's report involves a high degree of subjectivity. As a result of this uncertainty, this proposal could result in significant additional disclosures, increasing investor confusion and requiring substantial additional work by the auditors and Company employees, increasing costs and time constraints. This proposal could also inhibit candid, open communications between the auditor, management and the audit committee as the parties consider in advance which matters might ultimately end up in the auditor's report.

The Proposed Standards cite certain academic studies that conclude that increased information provided to investors results in better capital allocation and a lower cost of capital. However, these studies do not link the proposed discussion of CAMs to the type of information that would result in such improvements. We do not believe the proposed disclosures would materially benefit investors.

Significant accounting matters already require disclosure in the financial statements. Furthermore, there are numerous examples in current U.S. GAAP where management is required to disclose highly subjective accounting estimates or assumptions. For example, the valuation of Level 3 investments requires a robust discussion of how fair value is determined, including the assumptions and subjective estimates. If an accounting matter includes one of these attributes for the reporting company, it is presumed to include the same challenges for auditors. A reiteration of the assumptions or subjectivity provides no additional insight to the investor beyond what is already required to be included in the financial statements.

The discussion of CAMs could also serve to undermine investor confidence in the auditor's opinion that the financial statements are free from material misstatement, as well as the auditor's opinion on the effectiveness of internal controls over financial reporting. The retained pass/fail form of the audit opinion should provide assurance to the reader of the financial statements that the financial statements are in accordance with U.S. GAAP and materially correct. A separate discussion from the auditor on accounting matters or potential control deficiencies that ultimately had no impact on the financial statement disclosures or the auditor's opinion, even if there are caveats that the discussion does not contradict the audit opinion, may undermine investor confidence in the financial statements by suggesting the disclosures are incomplete or inaccurate, or that internal controls are inadequate.

The discussion of CAMs could in some cases be inconsistent with existing accounting pronouncements, creating investor confusion. For example, current accounting rules require disclosure of material pending or threatened litigation, a judgment that often involves subjective evaluation. Such litigation matters, immaterial individually and in the aggregate, but involving substantial judgment or difficult estimates, might be considered by the auditor to be a CAM. In that event, the proposed auditor disclosure would introduce items not disclosed by management in

its financial statements, creating investor confusion and potentially compromising the company's position on those matters. This would directly undermine the rationale behind the SEC's materiality threshold in financial statement disclosure.

More generally, we do not believe that it is appropriate for the audit report to be a source of new information about the reporting company's business provided by an outside party. Consistent with much of the commentary on the previously proposed Auditor Discussion and Analysis, we believe all information about our business should be provided by company management.

A similar issue could arise in the context of the auditor's opinion on the effectiveness of internal controls. The evaluation of control deficiencies can be complex and the final classification of a control weakness as a significant deficiency or material weakness requires discussion with the audit committee. The current description of CAMs in the proposed rule could result in including discussion of such a control deficiency in the auditor's report. Given that significant deficiencies are not required to be publicly disclosed, this would contradict the current reporting guidance.

As noted above, the Proposed Standards specify three possible sources of CAMs. While the Proposed Standards do not require all items included in these categories to be considered "critical," the list of topics included in this population can be extensive, driven by several factors. First, the increase in the quality of audit documentation has resulted in more exhaustive documentation of issues at varying levels of materiality, which has increased the number of items discussed with the EQR. Second, an open and productive relationship between the auditor and the audit committee has allowed for more frank discussion about a broader range of issues. This gives the audit committee valuable insights into the audit process and into the auditor's views on accounting principles, internal controls and quality of management, but also increases the number of issues discussed.

Because the determination of what items in this population are considered "critical" requires a high degree of subjectivity, there are several, possible unanticipated consequences of this requirement. First, because there is likely to be significant scrutiny of CAMs included in the audit opinion by both the public and the PCAOB, auditors may include unnecessary information in the auditor's report which would give undue prominence to such information and increase cost with no benefit. Another possible consequence is that the requirement for auditors to consider items discussed with the audit committee as possible CAMs could lead them to "edit" their communications with the audit committee, compromising the effective oversight function of the audit committee.

We are also concerned about the additional costs that would likely result from the proposed discussion of CAMs. At minimum, the auditors would need to document their judgments regarding which issues were considered CAMs and which were not. In addition, because statements made by the auditor regarding a position on individual elements of the financial statements would be perceived to increase risk, we believe auditors will increase audit procedures in these areas, increasing audit fees and costs for company personnel. This type of documentation would add little value to investors.

Furthermore, it is reasonable to assume that the majority of the auditor's work regarding the CAM report will come at the end of an audit, putting significant strains on already tight reporting deadlines for most public companies.

Auditor Independence and Tenure

The Proposed Standards would require that the auditor include in the audit opinion a statement of independence and a disclosure of the length of time their firm has audited the Company.

With respect to the proposed requirement that the auditor include a statement of independence in the auditor's report, we do not object to providing such a statement to the reader of the financial statements. Although the independence requirements for auditors are publicly available, a reiteration of the fact that the auditor must maintain a required level of independence may serve as a good reminder to the reader of those requirements.

However, we believe inclusion of the auditor's tenure seems unnecessary and may suggest to investors that the auditor is not independent based on the length of tenure. In response to the PCAOB's previous concept release regarding mandatory auditor rotation, most respondents expressed the view that mandatory auditor rotation would not reduce audit risk by improving auditor independence but on the contrary, would increase audit risk, and consequently, investor risk, due to a new auditor's unfamiliarity with the company. We agree with that position. Current auditor independence rules are robust and include mandatory partner rotation, limitation of non-audit services, regulatory review of a firm's audits and of a firm's independence procedures, and other effective rules that ensure that auditors remain independent.

Auditor's Requirements Related to Other Information

Lastly, the Proposed Standards include a requirement that the auditor include a discussion of the auditor's responsibilities for, and the results of the auditor's evaluation of other information included in annual filings that include the auditor financial statements. The auditor would not opine on the accuracy of the other information, but would only state that there are no material inconsistencies between the other information and the audited financial statements based on the audit of those statements. If material inconsistencies exist, and have not been corrected in the other information, a description of such inconsistencies would be included in the auditor's report.

Currently, the auditor is only required to "read and consider" the other information. It is our experience that with the current requirement, the auditor is already reviewing the other information for inconsistencies, which would be corrected prior to the issuance of the financial statements through discussions between the auditor and management and as a result of the auditor's (already) mandated communications to the Audit Committee. Therefore, we believe such inconsistencies would be rare. However, there are inherent difficulties associated with a reporting requirement that should be considered before such a change in the auditor's report is enacted.

The other information included in an annual report covers both financial and non-financial matters, as well as forward looking information. The PCAOB is not proposing that the auditor actually audit non-financial or forward looking information. Yet the statement that no material inconsistencies exist between the audited financial statements and the other information may cause confusion for readers of the annual report as to what other information is covered by such a statement and what procedures were applied by the auditor. In fact, no standards currently exist to guide auditors in making such a determination. As a result, the most likely outcome is that the auditor would significantly increase its procedures, increasing costs for the auditor and the Company as well as increasing the difficulty of meeting current filing deadlines.

Summary

We do not believe the Proposed Standards would improve the quality of our financial statements or deliver significant value for investors, but would result in increased cost and potential investor confusion.

Thank you for your consideration of the points outlined in this letter and we look forward to monitoring the project developments in the future. If you have questions or would like to discuss our responses further, please contact me at (503) 671-6453.

Sincerely,



Bernard F. Pliska
Nike, Inc.
Vice President, Corporate Controller, Principal Accounting Officer