

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298**FILED**06-29-12
12:24 PM

June 29, 2012

Agenda ID #11434

TO PARTIES OF RECORD IN PETITION 12-02-016

This is the proposed decision of Administrative Law Judge (ALJ) MacDonald. It will not appear on the Commission's agenda sooner than 30 days from the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3, opening comments shall not exceed 15 pages.

Comments must be filed pursuant to Rule 1.13 either electronically or in hard copy. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ MacDonald at kk3@cpuc.ca.gov and the assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ KAREN V. CLOPTONKaren V. Clopton, Chief
Administrative Law Judge

KVC:avs

Attachment

Decision PROPOSED DECISION OF ALJ MACDONALD (Mailed 6/29/2012)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Petition of Black Economic Council,
National Asian American Coalition, and
Latino Business Chamber of Greater Los
Angeles to Adopt, Amend, or Repeal a
Regulation Pursuant to Public Utilities Code
§ 1708.5.

Petition 12-02-016
(Filed February 23, 2012)

**DECISION DENYING, WITHOUT PREJUDICE, THE PETITION OF THE
BLACK ECONOMIC COUNCIL, NATIONAL ASIAN AMERICAN COALITION,
AND LATINO BUSINESS CHAMBER OF GREATER LOS ANGELES FOR A
RULEMAKING TO PROPOSE RULES REGARDING THE ANNUAL
FINANCIAL AUDITS OF INVESTOR-OWNED UTILITIES**

1. Summary

This decision denies, without prejudice, the petition of the Black Economic Council, the National Asian American Coalition, and the Latino Business Chamber of Greater Los Angeles asking the Commission to initiate a rulemaking to propose rules to improve the integrity and quality of annual financial audits of the investor-owned utilities by requiring the mandatory rotation of independent auditing firms every six years; barring independent auditors from providing any services other than audit functions to the utility; and encouraging more competition in the utility auditing profession with a goal of enhancing minority hiring. Petition 12-02-016 is closed.

2. Background

On February 23, 2012, the Black Economic Council, the National Asian American Coalition, and the Latino Business Chamber of Greater Los Angeles

(the Joint Parties) petitioned the California Public Utilities Commission (Commission) to Adopt, Amend, or Repeal a Regulation Pursuant to Public Utilities Code § 1708.5.¹ The Utility Reform Network (TURN) filed comments in support of the petition on March 26, 2012. Comments in opposition to the petition were filed on March 26, 2012 by Southern California Edison Company (SCE) and Pacific, Gas and Electric Company (PG&E). San Diego Gas and Electric Company (SDG&E) and Southern California Gas Company (SoCal Gas) jointly filed comments opposing the petition on March 26, 2012. The Joint Parties, PG&E, SDG&E and SoCal Gas filed reply comments on April 24, 2012.

3. The Joint Parties' Petition

In their Petition, the Joint Parties ask the Commission to initiate an Order Instituting Rulemaking (OIR) to create rules to improve the integrity and accuracy of information contained in annual financial statements of investor-owned utilities (IOUs) that are audited by outside auditors. The Joint Parties request that the Commission address the impact, if any, of faulty independent audits by Deloitte & Touche, PricewaterhouseCoopers, Ernst & Young, and KMPG (known as the Big Four Certified Public Accountancy (CPA) firms) on IOUs with one billion dollars or more in revenue. The Joint Parties contend such a rulemaking is necessary because the audited information affects the accuracy of rate increases, executive compensation and other audits.

The Joint Parties argue that serious concerns have been raised about the integrity, independence, and impartiality of the financial audits of the IOUs. These concerns, the Joint Parties argue, must be addressed because the

¹ This code section permits interest persons to petition the Commission to adopt, amend, or repeal a regulation.

independent audits are relied upon by the Commission in its deliberative processes. The Joint Parties' concern stems, in part, from the Public Company Accounting Oversight Board's (PCAOB's) criticism of Deloitte & Touche² and other independent auditors who are routinely used by the IOUs.³

The Joint Parties assert that a rulemaking is needed because:

1. Of the impact of what they believe is a close relationship between the IOUs and the accounting firms, which reduces auditor independence and calls into question the accuracy and independence of the annual audits;
2. The IOUs continue to use the same accounting firms to audit their respective financial statements for at least a decade and for some for as long as fifty years, which fosters too close of a relationship;
3. The relationship between accounting firm and IOU is made even closer because the utilities hire the same firm to provide management services;
4. The large fee paid annually by each utility to its accounting firm further contributes to the close relationship and thus influences auditor independence; and
5. The PCAOB, in its pending Docket No. 37 on independence of audits, expressed concerns and offered suggestions about the lack of independence and apparent "partnerships" between independent CPA firms and the management of the companies they are auditing.

² The Joint Parties cite an article that ran in the Wall Street Journal on December 21, 2011.

³ The Joint Parties' Petition specifically names the "Big Four" CPA firms of Deloitte & Touche, PriceWaterhouse Coopers, Ernst & Young and KPMG.

The Joint Parties believe that now is the right time for the Commission to consider this issue. The Joint Parties believe the Commission should address the same issues that the PCAOB is addressing in Docket 37, namely:

- a. The rotation of CPA firms on a regular basis to prevent close management relationships and promote independence;
- b. Whether a CPA firm can be independent when it does consulting work for management, while at the same time performing its independent audit work; and
- c. Creating greater competition among independent auditors that may include more diverse CPA firms.

The Joint Parties ask the Commission to propose rules: 1) requiring the mandatory rotation of independent auditing firms every six years; 2) barring independent auditors from providing any services other than audit functions to the utility; and 3) encouraging more competition in the utility auditing profession, with a goal of enhancing minority hiring.

4. Responses to the Petition

PG&E, SCE, SDG&E and SoCal Gas, (hereinafter collectively referred to as the IOUs) ask the Commission to reject the Joint Parties request for an OIR. The IOUs assert the requested rulemaking is premised on fundamental misunderstandings about the role of the independent auditor and auditing practices in general and is unnecessary and duplicative. SDG&E and SoCal Gas also contend that the Joint Parties' petition fails to address the costs to ratepayers of both the rulemaking and regulatory implementation.

First, the IOUs contend that Petition asks the Commission to duplicate an ongoing proceeding currently being conducted by the PCAOB, an agency

specifically charged by Congress to assume responsibility over these issues.⁴ The IOUs argue that PCAOB Docket 37 demonstrates the PCAOB's level of commitment to conduct a detailed analysis of these complex issues. The PCAOB solicited public comment on ways that auditor independence, objectivity and professional skepticism could be enhanced, including mandatory audit rotation. In addition to simply considering mandatory auditor rotation, the IOUs contend that the PCAOB solicitation asked for input on the costs and benefits of requiring firm rotation; the consideration of alternatives to audit rotation; and various implementation concerns (21 of them) that were not raised by the Petition. The PCAOB received over 600 comment letters addressing these matters. As a result, the IOUs assert that because the PCAOB proceeding is considering the issues raised by the Joint Parties in great depth and because that process is ongoing, it would be inefficient for the Commission to duplicate the inquiry at this time. The IOUs therefore ask the Commission to rule that consideration of the OIR is not ripe.

⁴ See Concept Release on Auditor Independence and Audit Firm Rotation, PCAOB Release No. 2011-006 (August 16, 2011).

Second, the IOUs contend that the specialized utility concerns raised by the Petition are based on the Joint Parties' misunderstanding of the role of the independent auditor and the scope of their audits. The IOUs explain that each utility is responsible for the integrity of information contained in its financial statements, including complying with generally accepted accounting principles and maintaining effective internal controls. SDG&E and SoCal Gas assert that audited financial statements are of limited use to the Commission, and typically do not impact rates paid by ratepayers (other than audit fees necessarily incurred).

Specifically, the IOUs contend that reviewing utility expenditures and comparing them to what is allowed in a rate case or what might be forecast in a rate case is not within the role of the independent auditor or within the scope of the annual audit as the Joint Parties contend. Instead, the IOUs maintain that the independent auditor's opinions state (as the United States Securities and Exchange Commission (SEC) and PCAOB standards require) that the audits are planned and performed to obtain reasonable assurance the financial statements are free of material misstatements and that effective internal controls over financial reporting are maintained in all material respects. As a result, the IOUs argue the alleged harm the Joint Parties seek to remedy is not within the scope of the independent audit and the requirement that the firms rotate will not address the problem alleged to exist.

The IOUs also argue that the current safeguards for auditor independence are effective. Although the Joint Parties cite Enron⁵ as an example as to why firm rotation is warranted, the IOUs contend that the Joint Parties fail to recognize that the Sarbanes-Oxley⁶ reforms were enacted in response to Enron to ensure audit firm independence so that Enron events would not recur. The IOUs argue that Sarbanes-Oxley included a number of provisions designed to enhance auditor independence such as:

- Requiring the Audit Committee of the Board of Directors, rather than management, be in charge of hiring the auditor and overseeing the engagement;
- Prohibiting the auditors from providing certain non-audit services to clients and imposing significant limitations on an auditor's ability to market and/or perform consulting services;
- Imposing mandatory rotation of audit partners within a firm; and
- Establishing the PCAOB to independently oversee the auditing profession.

SCE adds that the independent auditor has a duty to inform its client if its audit is selected for review by the PCAOB, but that this type of PCAOB review

⁵ As relevant here, Enron was an American energy company whose bankruptcy in 2001 was the largest bankruptcy reorganization in American history at that time. Enron is also known as one of the biggest audit failures.

⁶ The Sarbanes-Oxley Act of 2002, enacted July 29, 2002, in response to major corporate and accounting scandals including Enron. Sarbanes-Oxley contains 11 sections ranging from additional corporate board responsibilities to improper influence on the conduct of audits to criminal penalties. Sarbanes Oxley required the SEC to implement rules on requirements to comply with the law and established the PCAOB to regulate, inspect and discipline accounting firms in their roles as auditors of public companies.

has not occurred for SCE. In addition to the PCAOB, SCE contends that the SEC periodically reviews the utility's quarterly and annual financial reports.

PG&E argues there are even more safeguards for utilities because the utilities are also subject to regulatory audits by the Federal Energy Regulatory Commission (FERC). PG&E contends that FERC is not bound by the independent accountant's certification of compliance and has the authority to conduct and does audit the utilities' data, records, accounts and books.

According to PG&E, independent auditors are aware that their work is subject to such review and, as a result, these FERC audits provide an additional incentive for the independent auditor to be accurate and independent. The IOUs argue that California utilities are subject to audits by the Commission every three years, thus providing an additional incentive for auditors to be independent and accurate. The IOUs are concerned that the Joint Parties' request fails to take into consideration the level of specialization and training required to perform financial audits which comply with FERC rules and regulations, let alone the special accounting requirements of the California regulatory overlay, including numerous balancing and memorandum accounts.

Next, the IOUs contend there are other more appropriate Commission mechanisms to assure that diversity goals are being achieved. Although the Joint Parties argue that firm rotation would enhance competition and result in more diverse partners and firms, PG&E contends this assertion lacks evidentiary support. The IOUs all confirmed their support of the Commission's goal to promote the use of diverse suppliers. The IOUs each point to the affirmative steps they have made to improve diversity in the workplace and in their contracting choices. The IOUs all contend that because the Commission already has a separate forum for addressing diversity issues under General Order

(GO) 156,⁷ there is no need to initiate the requested rulemaking to address this issue.

Finally, PG&E contends that its bond indenture agreements require that PG&E receive an independent audit opinion by a nationally recognized accounting firm. PG&E is unsure whether those agreements could be modified to accommodate smaller firms. PG&E is concerned that financing costs might increase if it were allowed to use a smaller firm resulting in an increase in costs to its customers.

Only TURN supports the Joint Parties' request for a rulemaking. First, TURN contends that, to the extent the costs of the audits and other services provided by the outside auditors are included in revenue requirement forecasts that serve as the basis for utility rates, the utilities' practices with regard to selecting and compensating their auditors have a direct bearing on rates. TURN adds that another factor warranting a change in practice for the utilities are the potential cost savings that may result from requiring the utilities to occasionally put their auditing needs out for competitive bid.

TURN estimates that the work of auditing firms could have an indirect impact on authorized revenue requirements insofar as the Commission permits rate recovery of performance incentive payments based on the utility's financial performance, to the extent that the independent auditor feeds into the determination of either the target or actual level of performance.

⁷ GO 156 sets forth Commission guidelines for the utilities to follow to meet statutory goals set by the California Legislature to encourage a fair proportion of utility procurement for products and services be awarded to women, minority and disabled veterans.

Finally, TURN argues that independent auditing firms may play a role in the authorized revenue requirements for utilities with more active holding companies and unregulated affiliates. TURN estimates that an auditor regularly adopts an allocation of shared costs during the course of an audit. As a result, TURN is concerned that the utilities' authorized revenue requirements may be impacted, at least to the extent to which the allocation informs or directs shared services cost allocation reflected in the utilities' general rate case (GRC) or other Commission proceedings in which shared services costs effect the authorized revenue requirement.

TURN also asks the Commission to expand the scope of the Petition to include any other issues the Commission deems reasonably pertinent to assessing the impact of utility financial audits on the Commission's exercise of regulatory authority, as well as to preventing harm to ratepayers stemming from utility financial statements which are of compromised integrity.

5. Joint Parties' Reply to Comments

The Joint Parties agree with comments filed by TURN in support of the Petition. The Joint Parties agree that the accuracy of an independent audit (or lack thereof) impacts a GRC or other Commission proceeding. In support of this position, the Joint Parties cite statements made by their expert in a separate proceeding, Rulemaking (R.) 12-02-019. In R.12-02-019, the Joint Parties contend their expert testified that it was highly likely that an auditor's practices impacted PG&E's financial statements because of the sheer number of hours of interaction between the auditor and utility personnel. The expert also testified that it was dangerous to automatically assume that rate data, generated by computers and hundreds of financial projections, was accurate. The expert's testimony further concluded that the long relationship between utility personnel and audit

personnel is much too intimate to be used for sound public judgment or to be considered genuinely independent. The Joint Parties contend that the IOUs, but PG&E in particular, cannot use the PCAOB as the primary basis for the Commission to deny the Petition and take a contrary position in other Commission proceedings.

The Joint Parties next reply that if FERC and Division of Ratepayer Advocates (DRA) audits were a substitute for an independent audit, the IOUs should return the more than \$35 million per year in annual audit fees to ratepayers for their 2012 and subsequent audits since they are of limited value in a GRC. The Joint Parties' reply questions DRA's failure to comment on whether they believe the Commission's tri-annual audits are a substitute for the independent audit.

The Joint Parties minimize the value of FERC and its audits, stating that FERC has been overwhelmed by the utilities in virtually all aspects of FERC's regulatory authority. The Joint Parties similarly suggest that the Commission invite FERC to respond to its Petition.

The Joint Parties also maintain that more than \$100 million in ratepayer funds were improperly and unlawfully diverted from ratepayers to benefit shareholders and to provide bonuses to PG&E executives under Deloitte & Touche's watch. The Joint Parties contend that an independent and accurate audit could have prevented this.

The Joint Parties strongly disagree with PG&E's contention that it must use one of the Big Four accounting firms to meet the terms of its bond indenture. The Joint Parties argue that there are at least 25 firms with nationally recognized standing and capacity to fully audit PG&E. The Joint Parties disagree with PG&E that the equity markets will react unfavorably if PG&E selected a smaller

firm for its audit. Instead, the Joint Parties contend that the markets have already reacted unfavorably to PG&E's use of one Deloitte & Touche.

The Joint Parties maintain that changing auditors is not costly and agree with TURN that competitive bidding could lead to lower costs. The Joint Parties point to Groupon's wildly fluctuating valuation as an example of the consequences of its auditing issues.⁸ The Joint Parties argue that this is a basis for the Commission to not only open a rulemaking, but to expand the scope of the rulemaking to consider requiring a second independent audit where serious questions are raised.

The Joint Parties question PG&E's sincerity with respect to the effectiveness of Audit Committees. The Joint Parties contend PG&E has objected to the Joint Parties' cross-examination of its audit committee chairman, its chief financial officer, or its controller responsible for overseeing Deloitte & Touche audits.⁹

Finally, the Joint Parties state that while diversity is not the primary issue, the IOUs have failed to address the issue of diversity with respect to their CPA auditors. The Joint Parties contend that neither PG&E nor any of the other IOUs has presented evidence that a significant percentage of their auditing costs are spent with diverse CPA firms, let alone the 38 percent diversity average achieved for all products and services by the major utilities in 2011.¹⁰ The Joint Parties

⁸ The Joint Parties explain that Groupon was valued at \$31 per share at its high point, but only six months later lost half its value. The Joint Parties contend that this is attributable to accounting scandals that occurred under the audit by Ernst & Young.

⁹ PG&E opposed the Joint Parties' Motion to Compel Testimony in R.11-02-019.

¹⁰ Citing the GO 156 Reports of PG&E, SoCal Gas, SDG&E, and SCE.

contend the Big Four, unlike many CPA firms, are essentially white male partnerships in the United States and this pool could diversify if the Commission encourages competition for the \$35 million in annual audits by the utilities. Finally, the Joint Parties conclude by urging the Commission to engage in a public, orderly and transparent discussion of the issues presented by granting the Petition.

6. IOUs Reply to Comments

In response to the Comments filed by TURN, PG&E maintains that none of the Joint Parties' arguments warrant a rulemaking proceeding. PG&E, SDG&E, and SoCal Gas contend that TURN's arguments about possible cost savings are without basis and should be addressed, if at all, in each utility's GRC because the contract costs are not unique to auditing contracts. PG&E also asserts that granting a professional contract such as an independent audit is not based on cost alone.

Second, PG&E argues that TURN's arguments pertaining to compensation measures are without basis because compensation issues are addressed in the Total Compensation Study submitted for each utility's GRC. Specifically, PG&E contends that it is unaware of any Commission decision that has allowed recovery of incentive payments based on recorded earnings. PG&E states that to the extent the Commission has allowed cost recovery of utility incentive payments, it has generally done so based on the so-called "target" incentive amounts, not actual results. These "targeted" amounts, PG&E asserts, are included in forecasted rates are based on providing competitive compensation to PG&E employees. PG&E states that the competitiveness of employee compensation is supported by a compensation study jointly overseen by PG&E and DRA, and is not based on the independent audit. PG&E contends TURN's

argument fails to provide a basis for a generic rulemaking because there is no direct link between the independent audit and ratemaking treatment of incentive payments.

SDG&E and SoCal Gas also argue that TURN failed to show that the work of auditing firms could have an indirect impact on revenue requirements. They contend that the independent auditors do not audit energy efficiency incentives, natural gas procurement incentives, unbundled gas storage, hub services incentives, or operational incentives. Thus, SDG&E and SoCal Gas argue, TURN offers no evidence to support the allegation of an indirect impact on revenue requirements.

The IOUs argue that TURN's concern about wrongful allocation of costs is also misplaced because affiliate transactions are subject to significant scrutiny. The IOUs contend that the role of an auditor is to verify that the financial statements are fairly stated in accordance with Generally Accepted Accounting Principles (GAAP). Auditors do not, the IOUs assert, adopt allocations of shared costs as TURN speculates. As a result, PG&E contends the Commission should not (and does not) rely on the independent audit to verify such cost allocations. Instead, PG&E explains that the Commission conducts its own analysis as well as requiring the utilities to file annual reports of affiliate transactions. SDG&E and SoCal Gas also argue that the cost allocations are subject to scrutiny by DRA and intervenors.

Finally, PG&E contends that TURN's response fails to identify any relationship between its concerns and the objectives of the Petition to require mandatory audit firm rotation and other remedies. PG&E maintains that the issue of whether requiring audit firm rotation will improve or reduce the quality of audits is under study by the PCAOB. The IOUs argue that, not only is the

PCAOB the agency specifically tasked to examine this issue, but that the PCAOB could find mandatory firm rotation may create costs that outweigh the benefits, or that other less extreme remedial measures should be implemented. The IOUs ask the Commission to deny the Petition or to defer consideration of a rulemaking until the PCAOB completes its work.

7. Discussion

We appreciate the Joint Parties' efforts to bring the issue of auditor independence to the Commission. At this time, however, we deny without prejudice the Joint Parties' Petition to open a rulemaking. As discussed below, the Commission may reexamine the issue after the proceeding currently pending before the PCAOB concludes.

The PCAOB is currently examining the identical issues raised in the Joint Parties' request for a rulemaking. The PCAOB opened Docket 37 to begin an in-depth examination of the issues surrounding auditor independence, audit quality, and mandatory audit rotation, including the alternatives to mandatory audit rotation. In addition to simply examining mandatory audit firm rotation, the PCAOB's inquiry into auditor independence seeks to ascertain what factors and/or guidelines encourage auditor independence, the points during an audit engagement at which auditor independence is most vulnerable, and the potential impacts of mandatory audit firm rotation on auditor independence, audit costs and audit quality. The depth and breadth of the PCAOB inquiry is extensive, as are the volume of comments filed with the PCAOB. Six hundred fifty nine comments were filed in Docket 37 by the close of the comment period on March 28, 2012. Comments were filed by a very diverse group of companies spanning a broad array of industries throughout the United States, as well as abroad. Comments were also filed by professors, CPAs, legal experts, private

investors, Chambers of Commerce, professional organizations, trade organizations, consumer protection organizations and individuals.

Although the Commission can engage in its own investigation of these issues, an extensive amount of work has already been done by the PCAOB. The United States Congress specifically charged the PCAOB (under the jurisdiction of the SEC) with the oversight of auditors firms in their audits of public companies. As a national entity, the PCAOB is privy to information from a very diverse group of concerned entities and individuals (including utilities) across the country. The PCAOB has both the technical expertise and budget to engage in an extremely detailed investigation of auditor independence and the potential impacts of mandatory audit firm rotation. The Commission will benefit by allowing the PCAOB to conclude its work prior to opening a rulemaking here to consider these same issues. Initiating a rulemaking now would be duplicative of the ongoing work of the PCAOB and is not the most efficient use of Commission resources.

The Joint Parties are participating in the PCAOB proceeding; opening a second rulemaking now would also dilute the limited resources of the Joint Parties and other potential participants. Upon completion by the PCAOB of its proceeding, the Joint Parties or others may renew their request for a rulemaking if it is then necessary.

Given the reasons detailed above, the Joint Parties' Petition to open a rulemaking is denied without prejudice.

8. Comments of Proposed Decision

The proposed decision of Administrative Law Judge (ALJ) MacDonald in this matter was mailed to the parties in accordance with Pub. Util. Code § 311 and comments were allowed pursuant to Rule 14.3 of the Commission's Rules of

Practice and Procedure. Opening comments were filed by ___ on ____ and reply comments were filed on ____ by ____.

9. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Katherine MacDonald is the assigned ALJ in this proceeding.

Findings of Fact

1. The quality and integrity of annual financial audits is an issue of national as well as local concern.

2. The Sarbanes-Oxley Act of 2002 established the PCAOB, under the jurisdiction of the SEC, to regulate, inspect and discipline accounting firms in their roles as auditors of Public Companies.

3. The PCAOB opened Docket 37 on August 16, 2011 to conduct a detailed analysis of the issues of auditor independence, objectivity and professional skepticism. Docket 37 requested comment on auditor independence, audit quality, mandatory auditor rotation, alternatives to rotation, as well as 21 other implementation concerns.

4. Very diverse parties including professors, CPAs, legal experts, private investors, trade organizations, professional organizations, corporations and industries including utilities filed comments with the PCAOB in Docket 37. A total of 659 comments were filed prior to the close of the comment period on March 28, 2012. The PCAOB has not concluded Docket 37 as of the date of the issuance of this proposed decision.

5. The Joint Parties are participating in the PCAOB proceeding.

6. The PCAOB has the technical expertise and budget to engage in a detailed investigation of auditor independence and the impact of requiring mandatory audit firm rotation.

Conclusions of Law

1. The PCAOB proceeding addressing auditor independence and mandatory audit firm rotation should address the issues raised by the Joint Parties.
2. The Commission and any rulemaking to improve auditor independence and quality will benefit from the technical expertise and ability of the PCAOB, its findings and conclusions.
3. The Joint Parties' and other potential participants' resources will be diluted if the Commission opened a rulemaking at this time.
4. This petition should be denied without prejudice.

O R D E R

IT IS ORDERED that:

1. The February 23, 2012 Petition for Rulemaking filed by the Black Economic Council, National Asian American Coalition, and Latino Business Chamber of Greater Los Angeles is denied without prejudice.
2. Petition 12-02-016 is closed.

This order is effective today.

Dated _____, at San Francisco, California.