

103(a) of the Act directs the PCAOB to establish auditing and related attestation standards, quality control standards, and ethics standards to be used by registered public accounting firms in the preparation and issuance of audit reports as required by the Act or the rules of the Commission.

Section 103(a)(2)(A)(i) of the Act expressly directs the Board to establish auditing standards that require registered public accounting firms to prepare and maintain, for at least seven years, audit documentation "in sufficient detail to support the conclusions reached" in the auditor's report.<sup>5</sup> The Board's proposed Auditing Standard No. 3 establishes general requirements for documentation the auditor should prepare and retain in connection with engagements conducted pursuant to the standards of the PCAOB. Such engagements include an audit of financial statements, an audit of internal control over financial reporting, and a review of interim financial information. Proposed Auditing Standard No. 3 requires that auditors document procedures performed, evidence obtained, and conclusions reached. In addition, audit firms must retain audit documentation for seven years from the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements ("report release date"). This standard states that, if approved by the Commission, it would be effective for audits of financial statements with fiscal years ending on or after the later of November 15, 2004 or 30 days after the date of approval of the standard by the Commission.

The Board's proposed amendment to AU sec. 543 imposes unconditional responsibility on the principal auditor to obtain certain audit documentation from another auditor (who, though not named in the audit report, has performed part of the audit work used by the principal auditor) prior to the audit report release date. In addition, the amendment provides that the principal auditor should consider

performing one or more of the procedures listed in the amendment to paragraph 12 of AU sec. 543, such as discussing the audit procedures and related results with the other auditor and reviewing the audit programs of the other auditor.

### III. Discussion

The Commission's comment period on the Proposed Standard ended on August 10, 2004, with the Commission receiving eight comment letters. The comment letters came from five registered public accounting firms and three professional associations.

In general, commenters expressed appreciation for changes made by the PCAOB to its initially proposed standard. Four commenters expressed concern with the proposed effective date and recommend the final standard be effective for periods *beginning* on or after November 15, 2004. As currently proposed, the effective date of the Proposed Standard would apply to audits of financial statements with fiscal years *ending* on or after the later of November 15, 2004 or 30 days after the date of approval of the standard by the Commission (emphasis added). These commenters noted that most audits of 2004 financial statements (as well as audits of internal control over financial reporting for accelerated filers) ending on or after November 15, 2004 will have commenced prior to the proposed effective date. Specifically, they believe it is not practical to require retroactive application of the Proposed Standard to audits in process at the effective date, particularly on audits of large, multi-national corporations.

One commenter expressed concern with the proposed requirements that the office issuing the report must obtain certain audit documentation prepared by other auditors. This commenter maintained that certain documentation requirements could present conflicts with privacy laws in certain foreign jurisdictions. This commenter also expressed concern with the potential interpretation regarding the presentation of oral evidence and recommended that oral evidence be sufficient to explain both other written evidence and, where appropriate, matters for which there is no written evidence.

The PCAOB gave careful consideration to the issues raised by commenters in the course of revising the Proposed Standard prior to its adoption by the Board. In particular, the PCAOB considered concerns regarding the proposed effective date. The PCAOB concluded that the implementation date of the Proposed Standard should not be delayed beyond the year 2004 and

should coincide with the documentation requirements set forth in PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*.

### IV. Conclusion

On the basis of the foregoing, the Commission finds that proposed Auditing Standard No. 3 and the proposed amendment to AU sec. 543 are consistent with the requirements of the Act and the securities laws and are necessary and appropriate in the public interest and for the protection of investors.

*It is therefore ordered*, pursuant to Section 107 of the Act and Section 19(b)(2) of the Exchange Act, that proposed Auditing Standard No. 3, *Audit Documentation*, and proposed Amendment to Interim Auditing Standards—AU sec. 543, *Part of Audit Performed by Other Independent Auditors*, (File No. PCAOB-2004-05) be and are hereby approved.

By the Commission.

**Jill M. Peterson,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 35-27885]

### Filings Under the Public Utility Holding Company Act of 1935, as Amended ("Act")

August 24, 2004.

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated under the Act. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendment(s) is/are available for public inspection through the Commission's Branch of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by September 20, 2004, to the Secretary, Securities and Exchange Commission, Washington, DC 20549-0609, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in the case of an attorney at

<sup>5</sup> Section 802 of the Act also directs the Commission to adopt rules requiring auditors to retain for seven years workpapers and other documentation related to audits or reviews of issuer financial statements. The Commission adopted final rules pursuant to Section 302 in January 2003. See Rule 2-06 of Regulation S-X; Release No. 34-47241 (January 24, 2003). The Commission's rules, which are aimed at preventing the destruction of audit records and facilitating the Commission's enforcement efforts, require retention of a broader set of documents than the Board's Proposed Standard, in that the Commission's rules require the retention of memoranda, correspondence and other documentation that are not traditionally considered "workpapers."

law, by certificate) should be filed with the request. Any request for hearing should identify specifically the issues of facts or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After September 20, 2004, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

#### Northeast Utilities (70-10234)

Northeast Utilities ("NU"), a Massachusetts business trust and registered holding company, 107 Selden Street, Berlin, Connecticut 06037-5457, has filed with this Commission a declaration under section 12(b) of the Act and rules 45 and 54.

NU's wholly-owned public utility subsidiaries are The Connecticut Light and Power Company, Public Service Company of New Hampshire, and Western Massachusetts Electric Company. Together, these companies furnish retail and wholesale electric service in Connecticut, New Hampshire, western Massachusetts and throughout the Northeast United States. NU is also the parent of a number of other companies, among them the Northeast Utilities Service Company, a service company subsidiary of NU ("NUSCO") and The Rocky River Realty Company, a non-utility subsidiary of NU ("RRR").

NUSCO, a Connecticut corporation, provides centralized support services to NU system companies, including accounting, administrative, information technology, engineering, financial, legal, operational, planning and purchasing services. RRR, a Connecticut corporation, engages in real estate transactions on behalf of NU system companies, including entering into leases for office space utilized by various system companies.

As part of normal business activities, from time to time, NUSCO and RRR may ask NU to provide financial or performance assurances of the obligations of NUSCO and of RRR to third parties. These agreements include contract guarantees, surety bonds and rating-contingent collateralization provisions. In addition, RRR may ask NU to provide payment and performance guarantees in connection with the real-estate contracting activities of RRR, including construction, acquisition and leasing of properties and facilities utilized by certain NU system companies.

NU requests authority, for the period ending June 30, 2007 ("Authorization Period"), to guarantee, indemnify and otherwise provide credit support (each, a "Guarantee") to NUSCO and to RRR,

as may be appropriate or necessary in the ordinary course of the NUSCO and the RRR businesses, in an aggregate amount not exceed \$100 million outstanding at any one time.

The Guarantees may take the form of NU agreeing to guarantee, undertake reimbursement obligations or assume liabilities or other obligations with respect to or act as surety on, real estate and equipment leases, letters of credit, evidences of indebtedness, equity commitments and performance and other obligations undertaken by NUSCO or by RRR.

NU specifically states that the authority requested is separate from the guaranty authority granted by the Commission in its order dated June 30, 2004 (Holding Co. Act Release No. 27868), supplemented July 2, 2004 (Holding Co. Act Release No. 27868A) (together, the "NUEI Order"). The NUEI Order authorized, among other things, NU and NU Enterprises, a wholly owned non-utility subsidiary of NU, to guarantee, indemnify and otherwise provide credit support of up to \$750 million of the debt or obligations of NU's non-utility subsidiaries or affiliates (not including NUSCO or RRR) through June 30, 2007.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-50230; File No. SR-PCX-2004-67]

### Self-Regulatory Organizations; Pacific Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change and Amendments Nos. 1 and 2 Thereto Amending PCXE Rule 7.55 Relating to the Processing of Incoming ITS Commitments

August 23, 2004.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 14, 2004, the Pacific Exchange, Inc. ("PCX" or "Exchange"), through its wholly owned subsidiary PCX Equities, Inc. ("PCXE"), filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items

have been prepared by the Exchange. The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(i) of the Act,<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission. On August 12, 2004, the PCX filed Amendment No. 1 to the proposed rule change.<sup>5</sup> On August 13, 2004, the PCX filed Amendment No. 2 to the proposed rule change.<sup>6</sup> The Commission is publishing this notice, as amended, to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange is proposing to amend PCXE Rule 7.55 ("Definitions"), which governs the Archipelago Exchange ("ArcaEx"), an equities trading facility of PCXE, to clarify current ArcaEx practices with respect to the processing of incoming commitments over the Intermarket Trading system ("ITS"). The text of the proposed rule change appears below. New text is in italics.

\* \* \* \* \*

Rule 7

Equities Trading

Section 5—Intermarket Trading System Plan

Rule 7.55(a)—No change.

(b) Provisions of the Plan. The Corporation has agreed to comply to the best of its ability, and absent reasonable justification or excuse, to enforce compliance by its ETP Holders with the provision of the Plan. In this connection, the following shall apply:

(1)–(3)—No change.

(4) The ETP Holder who made the bid or offer which is sought by a commitment to trade received through ITS shall accept such commitment to trade, via the facilities of the Corporation, up to the amount of the bid or offer if the bid or offer is still available when the commitment to trade is received by such ETP Holder, via the facilities of the Corporation, unless acceptance is precluded by the Rules of the Corporation. In the event that the bid or offer which is sought by a commitment to trade is no longer available through the facilities of the Corporation when the commitment is received, but a new bid or offer is available through the facilities

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 204.19b-4(f)(1).

<sup>5</sup> See letter from Mai S. Shiver, Director, Regulatory Policy, PCX, to Nancy J. Sanow, Assistant Director, Division of Market Regulation ("Division"), Commission, dated August 11, 2004. Amendment No. 1 replaced the proposed rule change in its entirety.

<sup>6</sup> See letter from Mai S. Shiver, Director, Regulatory Policy, PCX, to Nancy J. Sanow, Assistant Director, Division of Market Regulation, dated August 12, 2004. Amendment No. 2 corrects the pagination and attaches Exhibit A, which was inadvertently omitted from the proposed rule change.

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.