

To:

PCAOB
Office of the Secretary, PCAOB
1666 K Street, NW
Washington, DC 20006-2803

Dear Chairman Logothetis,

My name is Jathin Bandari, a practicing physician by training. I have managed my and my family's money for the last 15 years, and have a small investment partnership consisting of friends, family, and community members in my region. I have read thousands of annual reports, proxies, auditor statements, and was myself a former Section 16 officer in a public company. I have spent the entirety of my career in highly regulated environments. For purposes of this communication, it would be reasonable to consider me a retail investor, whose perspective in navigating SEC filings may be under-represented when compared to institutional investors. As retail money is directly and indirectly a large proportion of the capital the PCAOB seeks to protect, I hope you find some of my commentary within-scope of your request for public commentary. For those items that fall out of the PCAOB's jurisdiction, I highlight these items to provide context for how retail money interacts with the system as a whole and to emphasize that regulatory boundaries are artificial relative to investors' needs.

Report of Independent Registered Public Accounting Firm

I find the auditor's statements in 10-Ks to be relatively uninformative as an investor. First, the language prioritizes the First Amendment defense of providing an opinion on financial statements and internal controls. This is often the first item that is discussed in the report, and gives the reader the impression that the auditor is more interested in defending itself than the investor. Second, there is a circular logic in its basis for opinion on financial statements – the auditor states it is reliant on management's judgment on preparation of financial statements, which requires yet another auditor opinion on whether internal controls are effective. This is another example of liability-shuffling that does not invoke investor confidence. Third, the Critical Audit Matters (CAMs) are written in such vague detail that an investor has no way of calibrating the magnitude and sensitivity of the listed items on the overall financial statements – at most we can understand that the auditor identified something that may be material, obtained an understanding, performed some tests on it, and ultimately opined that it was fairly represented. There is often a reference to a footnote, and the footnote does not detail exactly what the auditor pressure-tested or how. It is an anti-climactic follow-through for an investor who may want to better understand the nuance of the financials. In scientific literature, you cannot publish methods without the results, nor can you reference footnotes with no follow-through. It would be reasonable to require this minimum standard, and may provide

investors with greater sense of protection by showing what the auditors' stress-tests produced. In the end, in the current system, the investor pays a fee only to feel that both management and auditor are trying to absolve themselves of responsibility while fulfilling a Sarbanes-Oxley mandate. My first recommendation to you is to reduce exculpatory language, as it currently gives the impression that auditors are prioritizing their own interest over the investor's. My second recommendation is to require thorough disclosure on the results of the audit tests (both quantitative and qualitative). My third recommendation is to close the loop on footnotes – that is, footnotes mentioned in the auditing statement should speak explicitly and directly to the CAM.

Competition

Unlike most, I do not believe promoting competition in the auditing market will serve to protect investors. The auditing profession, like Credit Ratings Agencies, tends towards natural oligopolies. The largest firms are theoretically best able to demonstrate independence, potentially have the biggest reputational risk to offset conflicts of interest, and regulation can paradoxically more deeply entrench incumbents. Although there are clear benefits to competition, competition in natural oligopolies tend to have some untoward feature that fails the public. These are well-described phenomena, beyond the scope of this communication, and if interested I refer to the OECD Roundtables on Competition's "Competition and Regulation in Auditing and Related Professions." Summarily, many OECD countries have tried to promote competition in the auditing profession with limited success. There may be some value in attempting to rotate auditors periodically, but I have not witnessed success in this implementation.

Independence of the PCAOB

An extreme example of "monopolistic good" lies in monopolistic regulators. The PCAOB's sole authority and independence over auditors ensures there is no "race to the bottom" whereby regulators compete for business and relevance by relaxing their standards. Examples where regulatory competition adversely affected the public interest include the FHLBB/FSLIC (Savings & Loans crisis) and the FHLBB's successor, OTS (Great Financial Crisis). In my profession, the FDA is the sole ultimate regulator for drug development and has historically performed its duties admirably. A single, powerful, and well-funded regulator keeps the system sound and protects the general good. Competition in the regulatory domain should be contrasted with competition in the commercial domain because regulators typically do not perform commercial activities that could harm consumer interests. On the contrary, a monopolistic regulator allows them to better protect consumer interests by avoiding "regulator shopping." It is thus in the spirit of the law to have a single, powerful, well-funded regulator.

Forward-Looking Executive Compensation

I find proxy statements to be highly variable in their quality. While there is extensive discussion of Board of Directors, values, proposals, and backward-looking compensation outcomes, there tends to be a paucity of detail on forward-looking Key Performance Indicators (KPIs) that Named Executive Officers (NEOs) are held against. Detail will often be very high-level (e.g., our philosophy is say-on-pay and 15% of the CEO's pay is salary and 85% is at-risk variable compensation which aligns their incentives with the investor's). Yet the specifics of variable compensation are often stated in hindsight after they have been awarded in prior years, rather than *a priori* at the time internal corporate goals are determined. This gives the investor the impression that management and the Board are capable of changing the goalpost after their vote is cast in the proxy. Compensation votes being advisory-only does not provide adequate defense against the need for detailed disclosure. Furthermore, it is hard to justify why such performance metrics aren't mandatory disclosures under materiality rules. It is yet another example of circular logic – if the KPIs are material, why aren't they disclosed? If they are not material, then why are they KPIs for the NEOs? My recommendation to you is tighter enforcement of materiality in proxy statements for executive compensation. To resolve the circular logic described, I recommend you consider the position that *any* compensation KPI for NEOs are, by definition, material. You may find that companies try to defend from this by claiming competitive concerns, to which I recommend that some disclosure is better than none and categorical descriptors may suffice. The same standards for materiality in 10-Ks, which balance competitive concerns with disclosure rules, should apply to proxy statements.

Communication with Retail Investors

Retail investors, in contrast to institutional investors, are likely more interested in the concept of fairness than a detailed analysis; however, easy access to detail provides face-validity of fairness. Upon review of the PCAOB's reports on auditors, one may ask why the formatting of the PCAOB's reports are asynchronous with the auditors' reports on a company. While some items may not be applicable, the auditor of an auditor's report should be similarly formatted to the auditor of a company's report in the 10-K. I personally find the PCAOB's reports far more informative than the auditor's reports on a company's financials and internal reporting, and mandating a comparable format would, at minimum, show consistency in reporting expectations. The PCAOB can utilize the rationale that they expect auditors to adhere to the same standards the PCAOB sets for itself. For example, I find the "Audit Areas Most Frequently Reviewed" section informative in the PCAOB reports. It would be helpful for an audit firm to tell me what areas of a company's financials they most frequently review, so that I better understand what areas are scrutinized more than others. Instead, the current CAM-based reporting suffers from a survivorship bias in that I only see the *post-hoc* conclusion of an audit. I recommend to you that you hold auditors accountable to the same formatting and reporting standards that you hold for yourself, where applicable.

Since the PCAOB has a second-order relationship to end consumers (i.e., the auditor of the auditor), the administration suffers from a perceived lack of self-evident relevance. I therefore believe a general trust in the regulatory system benefits the PCAOB more than the painstaking task of explaining everything the PCAOB does on a direct-to-consumer basis, although these are by no means mutually exclusive. If you have internal metrics on the public's awareness of the PCAOB which counter my presumption, I would be interested in reviewing these data. Absent such data, it is my belief the second-order nature of this regulatory function suffers from poor public awareness. In my professional experience, the FDA has benefitted from a patient-advocate voice in the arcane business of drug development. This has significantly helped their public perception by demonstrating the end-consumer gets a seat at the table. It may be the case that boosting retail investor presence in your workshops would similarly benefit you.

I thank you for your time, and wish to express my admiration for the PCAOB and the service they provide to the general public.

Warm regards,

A handwritten signature in black ink, appearing to read 'Jathin', enclosed within a circular flourish.

Jathin Bandari, M.D.