From: Mr Dean <mr.dean2022@outlook.com>
Sent: Thursday, July 30, 2026 7:15 AM
To: Comments
Subject: [EXT]: PCAOB Transformation

Hello PCAOB: I am responding to the published PCAOB call for feedback below ...

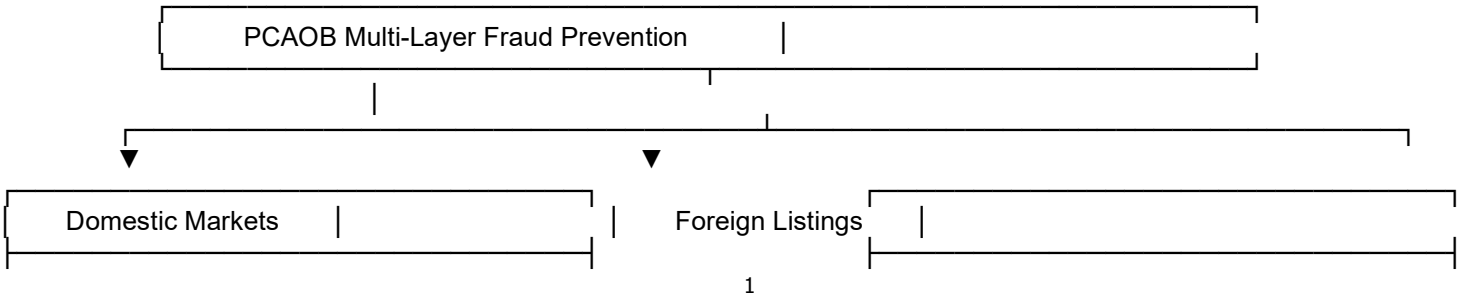
Based on my 40 years of tech industry business development, note my thoughts on **transforming** the Public Company Accounting Oversight Board (PCAOB) into a modern, agile, and technology-driven audit regulator, the agency must shift from a **post-hoc inspection model** to an **active, continuous-risk monitoring framework**. And review my article: **"The Institutional Transformation of U.S. Financial Oversight: Analyzing PCAOB Restructuring, SEC Deregulation, and the Socio-Economic Reshaping"** (*March 2026*)

As public markets integrate cross-border listings, rapid pre-IPO vehicles, tokenized real-world assets (RWA), and automated DeFi protocols, the PCAOB's traditional audit standards require a major technological overhaul.

1. Agency Efficiency & Modernization Framework
To elevate efficiency and move beyond retroactive sampling, the PCAOB should focus on three structural pillars:

- **AI-Driven Continuous Autonomous Inspection "Audit" Engine:** Transition from annual/triennial retrospective workpaper reviews to **real-time** anomaly detection. By establishing a standardized **Audit Documentation Taxonomy** (JSON/XBRL-based structured workpapers), the PCAOB can **deploy AI agents** to **continuously scan audit documentation across registered firms** for red flags, high-risk valuation assumptions, and independence conflicts in real time.
- **Creation of a Regulatory Sandbox & Innovation Lab:** Establish a dedicated ***Audit Tech Sandbox*** where audit firms, software developers, and PCAOB inspectors collaboratively test automated audit tools, AI workpaper reviewers, and zero-knowledge verification frameworks before market-wide deployment.
- **Risk-Weighted Enforcement Metrics:** Modernize QC 1000 quality management standards by linking inspection frequency to dynamic firm-level risk indicators—such as rapid client acquisition in high-volatility sectors (e.g., crypto issuers, cross-border reverse mergers).

2. Preventing Domestic & Foreign Equity Fraud



• Automated GL/Journal Scans		• HFCAA Mandate Enforcement
• Related-Party Graph Logic		• Dual-Signing Audit Rules
• Key-Person Risk Triggers		• On-Chain Reserve Audits

Protecting retail investors from accounting fraud requires tightening controls around foreign issuers (under the Holding Foreign Companies Accountable Act - HFCAA) and domestic shell/holding company structures.

Foreign Company Fraud Mitigation

- **Enforce Strict Dual-Audit Standards for High-Risk Jurisdictions:** Require non-U.S. component auditors working on cross-border registrants to co-sign audit workpapers alongside a registered U.S. firm subject to immediate PCAOB subpoena power.
- **Real-Time Forensic Data Access:** Mandate that foreign-registered audit firms maintain secure, cloud-hosted audit documentation in accessible jurisdictions, preventing foreign blocking statutes or secrecy laws from delaying PCAOB inspection requests.

Domestic Company Fraud Mitigation

- **Automated General Ledger (GL) Forensic Scans:** Modernize **AS 2401 (Consideration of Fraud)** by requiring audit firms to use automated graph-analysis tools to map related-party networks, off-balance-sheet vehicles, and circular cash-flow transactions.
- **Whistleblower & Anomaly AI Signal Network:** Build an integrated early-warning system that cross-references public short-seller reports, SEC Form 8-K auditor changes, and sudden executive resignations to trigger targeted "special inspections."

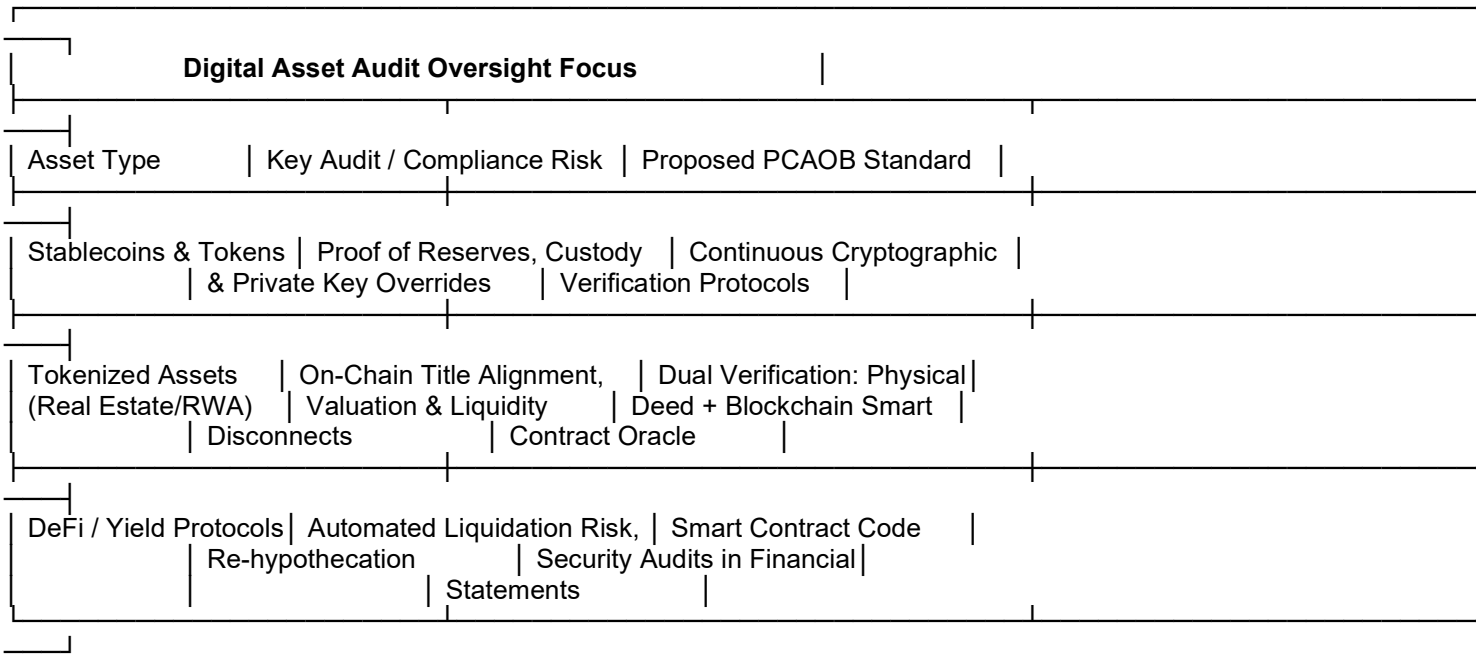
3. Oversight of IPO & Pre-Public Compliance

Rapid listings via traditional IPOs, SPACs, or direct listings often present elevated risk due to rushed financial reporting and immature internal controls over financial reporting (ICFR).

- **Pre-IPO Audit Readiness Reviews:** Introduce a mandatory **"PCAOB Pre-Registration Audit Check"** for public accounting firms auditing companies filing SEC Form S-1/F-1. The PCAOB should inspect the preliminary audit strategy for companies reaching a valuation threshold before the registration statement goes effective.
- **SPAC / De-SPAC Financial Standard Enforcement:** Require heightened scrutiny on complex capital structure accounting (e.g., earn-out shares, redemption rights, and warrant liabilities) that frequently lead to restatements post-merger.
- **Auditor Independence Lock-up Periods:** Strictly enforce and audit conflicts of interest where the same firm or affiliated entities provided valuation, technology implementation, or advisory services to a private company within 24 months of its IPO.

4. Oversight of Digital Assets, DeFi, and Tokenized Investments

As issuers integrate stablecoins, native utility tokens, fractionalized real estate, and DeFi protocols into their balance sheets, traditional audit standards for cash, inventory, and property fail to address unique cryptographical and valuation risks.



Key Regulatory Directives:

- **Cryptographic Proof of Custody vs. Ownership:** Standardize audit procedures for key management. Auditors cannot rely solely on exchange API readouts or simple wallet signatures. Standards must require multi-party computation (MPC) audit trails, hardware security module (HSM) inspections, and proof-of-control verification to ensure management hasn't lost or re-pledged private keys.
-
- **Reserve Audits for Stablecoins & RWAs:** Prohibit "snapshot" point-in-time Proof of Reserve (PoR) reports. Require auditors of stablecoin issuers and real-world asset (RWA) tokenization platforms to conduct **continuous, real-time attestations** linking on-chain token supply directly with off-chain bank custodian reserves and property deeds.
-
- **Valuation Standards for Illiquid Tokens (ASU 2023-08 Enforcement):** Enforce fair-value accounting rules under GAAP/FASB guidance while requiring auditors to evaluate token liquidity, unlock schedules, automated market maker (AMM) slippage, and wash-trading risks when validating token valuations.

It is also very **important** to note, the **convergence of agentic AI, machine-to-machine (M2M) payment** standards, and tokenized real-world assets represents a structural shift in global financial architecture. As software transitions from a tool used by humans to an **autonomous actor i.e. AI Agents capable of conducting commerce,** the underlying infrastructure must adapt to meet the M2M demands of ultra high-velocity, machine-driven autonomous transactions at a cost of .0002 in 400-miliseconds on the Blockchain which could never be fulfilled using outdated traditional finance banking legacy systems often taking days to clear, complete at significant 3% or so high- fee cost per transaction that would be impossible given the magnitude of M2M ultra high-velocity transactions in today's rapidly developing real-time digital economy.

Productivity in modern economies today is increasingly intangible, driven by software efficiency, algorithm optimization, and administrative automation. If a software protocol eliminates 80% to 90% of the friction and financial costs associated with executing transactions, managing supply chains,

business automation or allocating capital, that protocol **generates real world tangible economic value.** This real-world value benefit accrues to the native digital tokens without a need for currency conversion that secure, operationalize, and clear transactions across these automated infrastructure networks which are now increasingly performed by AI Machine-to-Machine (M2M) agents that require digital tokenized Blockchain platforms with ultra-fast real-time speeds, fractional micro-costs, and smart contracts with detailed autonomous execution in simple to complex transactions fulfilling nearly every need.

Bottomline, in my opinion based on today's rapidly accelerating shift to innovative financial and business technology apps with AI Agents and the growing digital economy. In fact, Warren Buffett and his like are **wrong** on this issue. And clearly there is a **calculable real-world tangible value**, financial benefits derived from the growing digital economy with crypto digital assets, tokenization and DeFi Blockchain apps that are naturally entangled now with Machine-to-Machine (M2M) autonomous AI Agents in business and individual daily tasks.

-

5. Overseeing Smart Contract Legal & Accounting Compliance

Smart contracts represent both the business logic and the financial execution layer for decentralized applications, example real estate sales and/or business supply chain transactions . When public companies interact with or deploy smart contracts, those **self-executing code** structures become a core component of the issuer's ICFR and transactional reporting.

Smart Contract Compliance Architecture

Proposed PCAOB Role & Framework:

1. **Smart Contract Code as Part of ICFR:** Update internal control standards (AS 2201) to treat deployed smart contracts as financial IT application controls. Auditors must verify that smart contracts handling customer funds or company assets have undergone formal verification, mathematical code proofs, and independent security audits.
2.
3. **Oracle Reliability Standards:** Establish specific audit procedures to test the integrity of decentralized oracles (data feeds that bridge real-world asset prices into smart contracts). If an issuer's financial reporting relies on automated liquidation or yield rules, auditors must confirm that the oracle feed cannot be manipulated via flash loans or single-source price exploits.
4.
5. **Legal Compliance & Automated Enforceability:** Require auditors to verify that smart contracts align with traditional contract law requirements (e.g., rescission mechanisms, clawback compliance under SEC regulations, and emergency pause functions). Code that operates without legal compliance capabilities represents an unmitigated liability risk on the balance sheet.
6.
7. **Continuous On-Chain Event Auditing:** Instead of inspecting manual journal entries, auditors should deploy automated nodes to monitor smart contract event logs (emit statements) directly from the blockchain to verify revenue recognition, settlement finality, and protocol fee distribution in real time.
8.

The Path Forward: By combining **AI-driven inspection tools**, **strict cross-border liability enforcement**, and **on-chain smart contract audit standards**, the PCAOB can transform from a reactive oversight body into a proactive, technology-native agency that protects retail investors across traditional equity and digital asset markets.

In closing, I hope these suggests and ideas are helpful, and embrace the inevitable transformation at PCAOB in the journey ahead. Feel free to reachout with questions to chat on the subject.

Best Regards,

James Dean
Director Business Development