



November 5, 2024

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803
comments@pcaobus.org

RE: Comments on Proposed Amendments to PCAOB Auditing Standards Related to a Company's Noncompliance with Laws and Regulations

Dear Secretary Brown and Members of the PCAOB:

On behalf of the Aerospace Industries Association (AIA), I write to express our concerns regarding the PCAOB's intent to move forward with the proposed standard on Noncompliance with Laws and Regulations (NOCLAR), as announced in a recent statement despite sustained opposition from both businesses and the auditing profession. We have closely reviewed recent public comments by members of the PCAOB and urge a reassessment of this approach to avoid significant adverse impacts on industry and the audit profession.

We acknowledge the importance of transparency and accountability in financial reporting and share the PCAOB's commitment to high standards of corporate governance. However, the proposed NOCLAR standard risks certain unintended consequences that would hinder rather than enhance the quality of financial reporting and auditor independence.

1. **Divergence from Longstanding Standards and Auditing Principles.** AIA emphasizes that the proposed NOCLAR standard diverges significantly from well-established standards on the role and responsibilities of auditors, particularly under the guidelines established by the American Institute of Certified Public Accountants (AICPA) and the International Auditing and Assurance Standards Board (IAASB). The proposed standard would require auditors to come to conclusions independent of management and extend the role of auditors beyond providing reasonable assurance over financial statements and risks compromising their independence and objectivity.

By imposing this requirement, the PCAOB would expand the audit scope outside their core expertise and training and increase costs and add confusion for the companies that they audit. The potential overlap with regulatory and legal enforcement bodies may create unnecessary confusion and tension within the regulatory landscape, ultimately undermining investor trust rather than strengthening it. The increased burden on external auditors to investigate potential compliance issues could lead to an adversarial dynamic between auditors and their client companies, eroding the collaborative nature necessary for effective financial reporting. Such an adversarial stance threatens to inhibit the open and honest communication vital for audit quality and may ultimately lead to adverse impacts on the availability and quality of audit services, especially in highly regulated industries.

2. **Increased Risks and Costs Without Proportionate Benefits.** This shift significantly increases costs, which are passed on to public companies. As the US government is a major customer to the AIA member companies, this cost is ultimately borne by the

American taxpayer. The resources required to fulfill the expanded duties under the NOCLAR standard – such as significantly increasing legal and compliance review capacities – would substantially increase compliance costs for companies and likely strain the audit profession. Also, the NOCLAR standard would particularly impact small to mid-sized companies, which may lack the resources to absorb these added expenses.

3. Diminishing Audit Value and Market Competitiveness. Our members have highlighted a potential erosion of competitiveness within the US market if the PCAOB proceeds with a NOCLAR standard that diverges significantly from international standards. With global capital markets becoming increasingly interconnected, introducing unique requirements for US auditors could put them at a disadvantage relative to their international counterparts and may inadvertently discourage global investment in US companies. Our members and others in industry have already cautioned that a lack of alignment with global standards would place additional pressure on US companies to comply with conflicting regulations, increasing operational complexity and competitive disadvantages.
4. Lack of Sufficient Public Engagement and Impact Analysis. While the PCAOB has invited public comment, the swift progression of this proposal without extensive industry consultation raises concerns. A more deliberate and transparent engagement process, allowing stakeholders from all affected sectors to contribute, would enhance the integrity of the rulemaking process and ensure that any changes reflect a comprehensive understanding of the potential impacts across industries.

In conclusion, we respectfully urge the PCAOB to consider alternative frameworks that focus on promoting transparency without imposing unreasonable legal compliance burdens. Instead, the PCAOB could work with existing enforcement bodies to identify collaborative approaches that reinforce the objectives of NOCLAR while still ensuring that auditors can continue to serve the capital markets with integrity and independence while supporting regulatory goals through appropriate channels.

AIA appreciates the opportunity to contribute to this discussion and encourage further dialogue to ensure that any future changes to auditing standards align with the core principles of independence and cost-effective, high-quality financial reporting. Our members and stakeholders are prepared to engage constructively in any consultations and work collaboratively with the PCAOB to find solutions that support both investor protection and market competitiveness.

Thank you for considering our views. Please direct any questions to Ryan McDermott, AIA Vice President, National Security Policy at ryan.mcdermott@aia-aerospace.org or 703-358-1083.

Sincerely,



Eric Fanning
President and CEO
Aerospace Industries Association