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April 12, 2024

Office of the Secretary
Public Company Accounting Oversight Board
16666 K Street, NW
Washington, DC 20006-2803

Via Email to comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 054, *Proposals Regarding False or Misleading Statements Concerning PCAOB Registration and Oversight and Constructive Requests to Withdraw from Registration*

Dear Board members and staff:

Grant Thornton LLP appreciates the opportunity to comment on PCAOB Rulemaking Docket Matter No. 054, *Proposals Regarding False or Misleading Statements Concerning PCAOB Registration and Oversight and Constructive Requests to Withdraw from Registration* (Proposal). We generally support the premise of the Proposal, and we appreciate the Board clarifying which engagements are within the PCAOB's oversight purview. Further, we believe that it is important to the public interest for the PCAOB to hold accountable those firms that mischaracterize their registration status. However, we foresee potential operational challenges and/or unintended consequences with some of the proposed changes. We respectfully submit, for the Board's consideration, our comments along with recommendations to minimize such potential challenges.

Amendment to Rule 2107

We support the Board's proposed amendment to address the notion of "constructive withdrawal requests" in Rule 2107, *Withdrawal from Registration*. We believe the consecutive two-year reporting period is reasonable, and we support the dual condition—the lack of both the payment of annual fees as well as the submission of annual reports—as the basis of the constructive withdrawal.

Proposed Rule 2400

Generally, we support proposed Rule 2400, *False or Misleading Statements Concerning PCAOB Registration and Oversight*. We believe it is important for the PCAOB to have a means to address false or misleading statements regarding a firm's

registration status and what these statements do, and do not, imply about that firm's services and the quality of such services.

Auditors' reports for clients other than issuers or broker-dealers

We have practical application concerns with Section (b)(4) of the proposed rule, which could be addressed by taking the following actions:

- Clarifying the interrelationship between proposed Rule 2400 and AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, relating to the reporting elements associated with a firm's registration status.
- Revising the proposed language the PCAOB would require the auditor to use in "dual standards" auditor's reports.
- Providing an illustrative example within the final rule indicating the PCAOB's expectation of what is meant by "prominently" adding the additional language into the auditor's report, when applicable.

The AICPA's Auditing Standards Board (ASB) began a project several years ago to address situations where an agency or regulator requires a financial statement audit to be performed in accordance with the standards of the PCAOB when the entity is not an SEC issuer or a broker-dealer. Because this type of audit would not fall under the jurisdiction of the PCAOB, the AICPA's *Code of Professional Conduct* (Code) requires members to perform that audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) in addition to the standards of the PCAOB. Such engagements are often referred to as "dual standards" engagements. Subsequently, the ASB issued Statement on Auditing Standards (SAS) 131, *Amendment to Statement on Auditing Standards No. 122 Section 700, Forming an Opinion and Reporting on Financial Statements*, which requires, among other things, that the PCAOB form of auditor's report be used in a dual standards engagement, with adjustments to address US GAAS. We believe SAS 131 was a major step in improving the clarity of auditor's reports that fall under these circumstances and gives auditors the ability to address clients' needs or requirements while remaining compliant with both the AICPA Code and the standards of the PCAOB.

Subsequent to the issuance of SAS 131, the PCAOB updated its reporting standards to include requirements related to an audit firm's registration status. In order for auditors to appropriately comply with AS 3101, all required reporting elements under AS 3101 must be included in the auditor's report, since they are unconditional requirements. Proposed Rule 2400 indicates that the firm "must not state" that it is registered with the PCAOB without also "prominently" including additional language. We are concerned the "must not state" language could be viewed as contradictory to AS 3101. We believe the interaction between the proposed unconditional requirement within Rule 2400 and the unconditional requirements of AS 3101 creates a scenario where the only way for audit firms to issue a dual standards report is to prominently include the additional proposed language, in lieu of removing the notion of registration from the auditor's report. If that is the Board's intent, we ask that the proposed rule be

clarified to more directly state the Board's expectation and reconcile the respective unconditional requirements within proposed Rule 2400 and AS 3101.

We acknowledge the Board's proposal to include the language "PCAOB Registered – Services Not Subject to PCAOB Oversight" in the auditor's report. We are concerned that using the word "services" in this context could be confusing and potentially misleading. We propose that "PCAOB Registered – **Engagement** Not Subject to PCAOB Oversight" [emphasis added] would be clearer to users, particularly in circumstances where the audit firm issues multiple reports for an entity and only certain of those engagements are subject to PCAOB oversight.

For example, assume that an audit firm issues a financial statement auditor's report for a broker-dealer. That firm simultaneously issues an attestation report in accordance with PCAOB AT 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*, as well as an agreed-upon procedures (AUP) report to comply with the requirements of the Securities Investor Protection Corporation (SIPC). Due to SIPC rules and their interaction with the AICPA Code, the agreed-upon procedures report is a dual standards engagement. The financial statement audit and related AT 1 attestation engagement are subject to PCAOB oversight, but the SIPC AUP report is not. If the AUP report includes the phrase "services not subject to PCAOB oversight," a reader could inappropriately infer that any services provided to that broker-dealer are not subject to PCAOB oversight. Therefore, referring to the "engagement" as opposed to "services" could be more helpful to users. We also believe such clarification could minimize potential translation confusion for foreign firms.

If the current Proposal is approved, we ask the Board to include an illustrative example within the final rule to demonstrate its expectation for "prominently indicating ... that such services are not subject to PCAOB oversight." Because dual standards reporting scenarios are reasonably common, an illustrative example would promote consistency in the application of the new rule and enhance user recognition when considering a variety of reports from multiple firms. We propose two potential options for the Board's consideration (language as revised per our recommendation above):

- Incorporating the language into either the title of the auditor's report, such as "Report of Independent Registered Public Accounting Firm (PCAOB-Registered – Engagement Not Subject to PCAOB Oversight)," or
- Adding a sentence to the end of the Basis for Opinion section of the auditor's report, such as "While we are a registered firm with the PCAOB, this engagement is not subject to PCAOB oversight."

Finally, we believe that the confusion with regard to what services fall within the PCAOB's jurisdiction is exacerbated when regulatory agencies require PCAOB standards for nonissuer engagements or for certain attestation services that are not subject to PCAOB oversight for issuers or broker-dealers. We encourage the Board to collaborate with these regulatory agencies in order for them to consider revising their rules to eliminate the references to PCAOB standards when the related engagement is not within the PCAOB's jurisdiction. Doing so could eliminate such confusion at the outset because firms would no longer be required to issue dual standards reports.

Amendments to Form 3

We question whether the proposed amendment to Form 3 is necessary. While we acknowledge the Board's views with regard to the time lag of Form 2, we note that Form AP would provide more timely, publicly available information with regard to firms issuing auditor's reports or playing a substantial role in an audit. Given the benefits of Form AP reporting, we are concerned the proposed change to Form 3 could be viewed as redundant and administratively burdensome, particularly for smaller firms.

Effective date

If the Board chooses to amend AS 3101 in conjunction with approving the proposed rule, we ask the Board to provide sufficient time for audit firms to revise relevant firm templates and guidance related to dual standards engagements. Depending on the timing of the approval by the Securities and Exchange Commission, a six-month implementation period may not be feasible.

We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Audit Quality and Risk, at 404-475-0130 or Jeff.Hughes@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP