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June 6, 2024

By email: comments@pcaob.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 055: *PCAOB Release No. 2024-003: Firm Reporting*

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2024-003, *Firm Reporting* (the Release). We support the Board's objective to protect investors and enhance firm transparency.

We acknowledge the effort put into the Release and commend the Board for aiming to improve and modernize reporting requirements. However, we have identified areas for clarification and concern regarding certain aspects of the Release to further support the Board's stated objective. We provide our observations and feedback indicating the considerations the Board should evaluate further before modifying the firm reporting requirements.

Intended use of information

We acknowledge the importance of providing decision-useful information to investors, audit committees, and other stakeholders. The proposed areas for enhanced reporting will provide those parties with information, but we are concerned the Board is proceeding with imposing significant incremental costs and burdens on registered firms without empirical evidence to support how the information aligns with the stated objectives and whether and how such information will be used. Without such empirical evidence, we caution that the stated benefit to investors, audit committees and other stakeholders may be overstated. We encourage additional outreach to be performed to analyze the specific needs of the public interest as to the benefit or use of the proposed firm reporting requirements. Also, see further discussion in our comment letter to PCAOB Release No. 2024-002, *Firm and Engagement Metrics* (PCAOB Release 2024-002).

We agree with Board Member Ho's dissent that there are no direct linkages between the proposed new reporting requirements and audit quality and that 'more' is not always 'better' for investors.[1] While we support disclosure of *relevant* information that safeguards investors and promotes the public interest, comprehending the relationship between the proposed reporting requirements and audit quality is challenging without a precise definition of the term 'audit quality'. We define 'audit quality' as "the outcome when audits are executed consistently, in line with regulatory requirements and intent of applicable professional standards, within a strong and responsible quality management system."[2] As stated in our comment letter on Firm and Engagement Metrics, we strongly recommend the Board establish a clear definition of audit quality and subsequently reevaluate the proposed firm reporting requirements in line with that definition, thereby establishing a clear link between the requirements and audit quality. For example, the Release is unclear how producing financial statements under US GAAP

[1] See statement from Are We Regulating the Audit Firms or Driving Out Competition? by Christina Ho, Board Member.

[2] See page 4 of KPMG's Audit Quality Report (AQR).

methodology, publicly disclosing expanded fee information or producing additional network information would support audit quality.

How the requested information is decision-useful and meaningful to investors who are investing in public companies, not in audit firms, is not clear. While we serve a critical gatekeeper role in the public capital markets, audit firms are not public entities. As such, investors are not at risk of direct financial harm based on changing firm dynamics (e.g. financial performance, changes in firm strategies, etc.). Currently, audit committees that believe they require more data than is required by the auditing standards to make informed decisions regarding their oversight responsibilities have the current ability to and make such requests of auditors. This involves two-way contextual communication, including detailed and candid conversations about the data provided, which effectively fulfills the objectives outlined in the Release. Similarly, the PCAOB collects confidential data from firms and benefits from open and detailed discussions to make informed regulatory decisions. Without this two-way communication, data alone can be misleading or overwhelming. The intended use of the information by the PCAOB, investors, audit committees or others is also not clear. For example, the Release acknowledges there is a lack of sufficient information to understand what specific financial metrics may be most useful to investors.[3] Accordingly, we recommend additional outreach beyond the PCAOB's Investor Advisory Group activities, to elicit more feedback from stakeholders to understand the decision-usefulness of the proposed required information, such as stakeholder surveys or focus groups.

Furthermore, some information to be reported as contemplated by the Release is duplicative of QC 1000 requirements,[4] information within the Release itself,[5] or with information already provided to the Board through the inspection process, as well as voluntary disclosure by registered firms. We are therefore uncertain how the PCAOB may use this data incrementally to the data the PCAOB already receives. We also are unclear whether the duplicative nature of this data would be considered against the PCAOB's existing requests, for example, by reducing or removing duplicative data from other PCAOB requests.

Finally, requiring enhanced reporting of auditor resignations, withdrawals, or dismissals would be duplicative of information already published and therefore not meaningful to stakeholders. In many cases, this information is already available to the capital markets through timely Form 8-K filings by issuers. Where timely reporting is not made by the issuer, AS 1310,[6] if approved by the SEC, would require firms to report applicable information to the SEC within five business days. Requiring duplicative reporting will lead to redundancy and unnecessary increased costs.

Confidentiality

We appreciate the Board's recognition that certain of the information that it is proposing be required to be filed in the Release should remain confidential versus being shared publicly. Striking a balance between transparency and the need to protect legitimate confidentiality concerns is important. For some of the information proposed for public disclosure, for example fee information, we urge the Board to consider that the existing inspection program, which already is subject to strict confidentiality rules, enables the Board to obtain such information to support its oversight of issuer auditors. As noted above, the Release

[3] See page 20 of the Release noting, "At present…we lack sufficient information to understand what specific financial metrics may be most useful to investors and others such that they merit public reporting."

[4] See, for example, QC 1000.11

[5] For example, Item 1.4.a and Item 1.4.e both require disclosure of the principal executive officer of the firm.

[6] See PCAOB AS 1310 as adopted in PCAOB Release No. 2024-005 as part of QC 1000.

acknowledges that the Board does not know which financial metrics are actually useful to investors which calls into question the need for many of the new public disclosures. By using this established channel, firms can confidently provide the necessary information confidentially.

The Release provides that some information to be provided in revised Forms 2 and 3 and submitted under new Rule 2208 will be treated as confidential (i.e. financial statements, cybersecurity incidents, certain special reporting events). If the Board chooses to collect this information via these new required filings as opposed through the inspection process, we strongly recommend that this information should remain confidential to the firms. Additionally, we recommend that the expanded fee information, cyber security related policies and procedures, and certain firm governance and global network information should also receive confidential treatment.

With respect to the financial statement requirement, the anticipated effects of submitting financial statements without confidentiality provisions could include the exposure of sensitive firm information and the potential for misinterpretation of financial data. Protecting proprietary financial information is essential to safeguarding the interests of audit firms and the companies under audit.

Additionally, maintaining the confidentiality of cybersecurity incident reporting is imperative to safeguarding sensitive information. In cases where companies under audit are impacted, we may be required to disclose information about the incident directly to those companies, who, if public, may in turn be subject to the reporting requirements set forth by the SEC, or who may be subject to other reporting requirements, either within or outside the US. Therefore, any pertinent information relating to cybersecurity incidents that is relevant to the public already has a pathway for dissemination to the affected parties.

The Release is also not clear as to whether the material event reporting in Item 8.1 is treated as confidential. While the Release states that such reporting will be confidential, unlike for proposed Item 9.1, the text of Item 8.1 does not state that the reporting will be confidential, and no such statement is made in Rule 2203 or the proposed General Instructions.[7] We also recommend providing clarification as to whether the checkboxes required in Item 8.1, material event reporting, and in Item 9.1, significant cybersecurity incident reporting, would remain confidential. The checkboxes should also benefit from the same confidentiality treatment as the disclosures related to the underlying event(s).

We strongly recommend the Board consult with others including IFIAR[8] members before concluding there is not a realistic possibility that any law would prohibit a firm from providing information requested in the Release.[9] There are laws in various jurisdictions that could have a significant impact on cross-border transfer of data, including (but not limited to) jurisdictions such as France and Switzerland. Additionally, there may also be contractual confidentiality provisions in place which may limit a firm's ability to comply with the proposed reporting requirements. For example, reporting material changes related to captive insurance or reinsurance policies and events that triggered material claims on such policies may breach the confidentiality provisions of those arrangements.[10]

Considering the sensitive nature of the information requested throughout the Release, we request information regarding the Board's own cybersecurity policies and procedures, as well as protocol for when information submitted by the firm in a confidential manner has been subject to a cybersecurity

[7] See page 36 of the Release.

[8] International Forum of Independent Audit Regulators

[9] See page 22 of the Release.

[10] See proposed requirement within Form 3 Part VIII Item 8.1.

incident. As the Board requests more information, there is a heightened concern about the security of the data provided to the PCAOB, particularly via confidential reporting.

Financial information

The Board's objective aims to understand the firm's audit practice, resource allocation, and differentiation among firms based on various factors. However, alignment of the requested financial information with the objective remains unclear. Moreover, it is anticipated that significant costs and time will be expended to gather the requested information, including the need for technology updates and collaboration with engagement teams. Although those alone pose challenges, they are especially challenging where a firm's current operational processes do not track or present financial information in the manner proposed by the Release. To address these challenges firms may have to divert resources from other activities more squarely focused on improving audit quality. We have outlined specific comments below related to both the proposed expanded fee information and financial statement requirement.

Expanded fee information

The potential benefits of further disaggregation and granularity of information, particularly at the firm-level and for non-SEC companies under audit,[11] are uncertain, and the rationale for the capital markets to possess such detailed information about audit firms has not been clearly demonstrated. For example, the current requirements to provide disaggregated fees as a percentage of total fees already achieves a similar objective, and it is unclear how requiring the dollar amounts provides additional insight to stakeholders. Understandability regarding the expanded fee information related to 'audit services for others' is further complicated by the examples provided relating to private company audits and custody rule audits. The custody rule requires audits of certain private investment funds. Therefore, it is unclear how that is separately distinguished from 'private entities'. It would also be critical to clarify if fees are meant to be reported for only *Audit* clients as mentioned in the Item 3.2 title 'Fees Billed to *Audit* Clients and Other Financial Information' or to *all* clients, including those outside of audit clients, as discussed in Item 3.2.a "Total fees billed by the Firm to *all* clients for services that were rendered in the reporting period…" Additionally, how a firm would categorize fees that are not billed directly to third-party companies under audit, for example, fees billed related to services provided to member firms within a network, is not clear.

The level of granularity and differentiation required for audit services specifically far exceeds what is typically disclosed in proxy statements of the public companies we serve, which already provides valuable insights to audit committees, investors and other stakeholders regarding the nature of work we perform and appears to achieve a similar objective. Consequently, it remains uncertain how the expanded fee information serves a distinct purpose that furthers the public interest and supports investor protection. These expanded requirements for fee reporting also seem to contradict the Board's conclusion that the public interest would not be served with incomplete, piecemeal reporting of a firm's financial information.[12]

While the cited literature (e.g. Mishra et al. 2005[13]) shows that greater fee disclosure is associated with investors' reactions (ratification of auditors), these measures are at an engagement-level. Additionally, as stated in the Release, the investor ratification of the appointment of auditors is not a statutory requirement

[11] For example, the requirement in the Note to Item 3.2 to indicate the nature of other audit clients and the fees billed for each category.

[12] See page 20 of the Release noting, "We do not believe the public interest would be served by incomplete, piecemeal reporting of a firm's financial information."

[13] See FN 131 on page 53 of the Release.

and, in many cases, non-binding.[14] The Release fails to identify how investors will process expanded fee information, and whether such information will be useful or appropriately interpreted. As such, the PCAOB would benefit from engaging in further research in this area before proceeding with final rulemaking.

Lastly, the proposal to expand fee disclosures to include services beyond those billed to our issuer companies under audit introduces a risk that stakeholders may inappropriately conclude that the firm's activities beyond audit services to issuers and brokers and dealers might be subject to the oversight of the PCAOB.

Financial statements

Intended use of information

As mentioned throughout this letter, it remains unclear how the Board, audit committees, investors, and other stakeholders could use this type of information to enhance audit quality. The Release states that an annual submission of financial statements would assist the Board in understanding a firm's ability to invest in technology and personnel, generate a profit within a specific service line, or identify if a firm is financially at risk.[15] However, it is not clear how the PCAOB's understanding would be enhanced by requiring the information in this format or what the PCAOB could or would do in the event of a solvency-related event, as it is not a prudential regulator. In addition, the Board is already able to and obtains the substance of this information through the inspection process.

Additionally, we agree that a fiscal year should not be defined, as this is linked to how the firms as a whole measure their business.

US GAAP requirement

Financial statements presented in accordance with a specific applicable financial reporting framework (e.g. US GAAP) should not be necessary to meet the objective of the Board and such a requirement is inconsistent with how firms operate. The requirement of a common financial reporting framework is understandable for issuers, as it makes comparisons between companies possible for investors and other users of financial statements. However, unlike an investor allocating capital, nothing in the Board's mandate requires it to compare the financial performance of registered firms with each other. Thus, it is unclear what the authority is for the Board to impose this requirement. It may also impose unnecessary burden on firms when the same objective could be achieved through information already provided, such as through the PCAOB inspection's related data requests. Additionally, the accommodations allowed during the transition period to not provide financial statements that conform to US GAAP are not particularly meaningful, as firms would still need to replicate the process of presenting the information in US GAAP to provide the required reconciliation disclosure. Instead, we recommend firms continue to provide financial information consistent with the framework used to manage their business as requested by the PCAOB in conjunction with confidential inspection process.

Further, the incremental requirements regarding the delineation of service lines needs further clarification. As proposed, whether this requirement is in addition to preparing the financial statements in accordance with US GAAP, which may not require such a disaggregated presentation of financial information, is not clear. For example, is the requirement to delineate the presentation within the balance sheet, income statement, and cashflow statement by service line, or is the delineation by service line only intended to be disclosed if it meets the segment reporting requirements of US GAAP?

[14] See FN 128 on page 53 of the Release.

[15] See page 26 of the Release.

Governance & Network Information

Governance information

We continue to support that required transparency should have a direct relationship to audit quality to further the public interest, support investor protection, and prevent users of the reported information from reaching inappropriate conclusions. The Release does not clearly articulate how the expanded governance information is meeting the Board's objective due to the duplicative nature of the disclosure and the availability of the information to the Board through alternative means.

Certain proposed disclosures, such as those related to individuals with ultimate accountability for the quality control (QC) system, overlap with requirements in QC 1000. Moreover, these disclosures would be treated as confidential under QC 1000, while the Release suggests public disclosure. As an example of duplicative information being required by the Release itself, Item 1.4.a necessitates the disclosure of the principal executive officer of the Firm and all direct reports, including names and titles, while Item 1.4.e also requires the same disclosure of the identity of the firm's principal executive officer. Similar information which achieves the same objective is already disclosed within transparency reports or through the inspection process. Firms also provide certain information regarding governance policies and procedures within their transparency reports.[16] We recommend allowing firms to incorporate by reference the applicable disclosure from their transparency report to streamline duplicative reporting requirements and reduce the cost burden. We also recommend reconsidering the necessity of the proposed governance information and assessing whether the proposed information would directly contribute to enhancing audit quality.

With regard to potential disclosure of personal-identifying information, we note that proposed Item 1.4 requires disclosure of the names and titles of all direct reports to the principal executive officer of the Firm. We acknowledge the Board designed the requirements to avoid disclosure of personal-identifying or client-specific information that might be protected by law.[17] However, the information regarding all direct reports of the principal executive officer of the Firm may not be information that is already publicly available. We recommend reevaluating whether the nature of this information (i.e. direct reports) is needed to support the objective of the Board and, in the process of doing so, consider potential unintended consequences, such as a decrease in the willingness of qualified people to perform roles like the External Quality Control Function.

Network information

The Release is unclear about how the proposed requirement to publicly disclose information, including network arrangements, achieves the objective of furthering investor, audit committee, and other stakeholder decision-making. As relevant material changes to the firm's organization or operations would be required to be confidentially disclosed to the Board through the revised Form 3, we question the need for publicly disclosing information regarding the underlying funding arrangements within a network of firms. This is commercially and competitively sensitive, proprietary information regarding the network entity with which the member firms are affiliated, which may not be a registered firm itself. The Release is unclear how the disclosure requirements related to information regarding these non-registered network entities tie to the PCAOB's remit of regulating registered firms. Network membership agreements often contain sensitive and proprietary information that should be kept confidential to protect the interests of the

[16] Transparency reports include information as required in Article 13 of Regulation 537/2014 and NYSE Listed Company Manual Section 303A.07(A).

[17] See page 19 of the Release.

network and its members. Requiring the public reporting of network membership agreements could potentially harm the confidentiality of audit networks. For example, member firms may require financial support from time to time for a variety of reasons. Disclosure of funding or loan arrangements may have the unintended consequence of causing a misinformed loss of confidence in a member firm. As such, this information should not be required to be made part of a public filing.

Furthermore, there is a duplication of requirements that are already publicly reported through various means, including compliance with EU regulations[18] and the issuance of transparency reports[19] on a global scale. The Release notes that transparency reports, as they currently exist, are not an effective means of disclosure.[20] However, it is worth noting that the references cited[21] likely include outdated information, as they are considerably aged. Transparency reporting has evolved and improved over the past few years. We urge the Board to consider more recent transparency reports to evaluate the value of the information that is already publicly available.

We also request clarity around what is meant by requesting the 'ownership structure of the network'. Networks consist of separate legal entities, so it is not clear what is expected, nor is it clear what objective this additional information would serve in terms of assisting audit committees, investors or other stakeholders to make decisions.

Special Reporting

While we appreciate the importance of timely notifying the Board of material events, we have some questions regarding the scope of the special reporting requirements and the timeline for required reporting. The non-exhaustive list provided by the PCAOB is beneficial in identifying potential subjects for material event reporting; however, additional guidance would enhance clarity in interpreting and applying the requirement. Certain example events include the concept of materiality directly in the example, however the title of the reporting and the lead-in to the listing of potential events includes the concept of materiality more broadly. The Release is unclear if firms should apply the concept of materiality to all examples from this listing or if materiality should be presumed where not otherwise stated.[22] For example, we support that it is appropriate for materiality to factor into reporting events related to 'restructuring' within the example "Planned or anticipated acquisition of the firm, change in control, or restructuring, including external investment and planned acquisition or disposition of assets or of an interest in an associated entity." However, the concept of materiality is not specified. Additionally, we support that it is appropriate for materiality to factor into reporting events related to 'loan covenants' within the example "Any actual or anticipated non-compliance with loan covenants." However, the concept of materiality is

[18] EU regulation 537/2014 requires that audit firms auditing one or more EU PIEs publish a Transparency Report.

[19] For example, the KPMG International Transparency Report addresses many of the requirements, including a description of KPMG International's structure and governance and KPMG member firms' relationship with KPMG International.

[20] See page 58 of the Release.

[21] See for example, footnotes 149, 150, and 152 on page 58 of the Release. Supporting papers range from 2012-2019.

[22] Page 37 of the Release states *"In certain instances, we have specified an event that should always trigger a special report (e.g., a change in principal executive officer). In other instances, and with respect to the general requirement, we use the term 'material' to limit the requirement to events that warrant reporting."*

not specified in respect of either the non-compliance or the type or significance of the loan or covenant. Furthermore, the benefit in some instances of disclosing material **positive** changes, rather than only material **adverse** changes, is unclear. For example, the objective of reporting favorable material changes in the amount of unfunded pension liability lacks clarity.

Additionally, as the determination of materiality for future events can be uncertain, we recommend the Board removes any disclosure requirements for potential future events, such as those 'planned' or 'anticipated', and only require disclosures for events that have occurred. Situations where the impact is uncertain or unpredictable, specifically, the inclusion of events or matters that may reasonably impact a firm's total revenue raises questions about how certain events, such as economic conditions or the COVID-19 pandemic, should be treated. For instance, during the initial 14 days of the COVID-19 lockdown, the extent and magnitude of the impact on revenue were uncertain and impossible to accurately predict. There is also uncertainty regarding how a firm would determine the timing of 'planned' or 'anticipated' events. In such cases, further clarification from the Board on how to handle these types of events would be valuable.

Regarding the timeline of reporting, the definition and parameters of the term 'more promptly as warranted' remain unclear and undefined. Additionally, using the date on which the firm determines the event to be material as the trigger for the reporting timeline opposed to the date of the occurrence of the event is more appropriate. This would enable the reporting to be initiated when the firm has made a clear determination regarding the significance and potential impact of the event. This would also limit the need to potentially amend or correct previously reported events in the instance a further analysis determines the event triggered the reporting requirement. Finally, we note that the proposed text of Special Reporting rule does not state that the information is filed confidentially, which is not consistent with the text of the Release.

Cybersecurity

We recognize the significance of cybersecurity and understand the Board's objective by requesting information regarding cybersecurity incidents. In determining appropriate reporting, the Board can benefit from the SEC's related rulemaking activities within the SEC Cyber Release.[23] We outline areas that differ between the Release and the SEC Cyber Release as well as provide recommendations where there is room for greater clarity in determining which incidents should be reported and what information would be relevant.

While the Release aligns directionally with the related SEC Cyber Release, the original proposal of the SEC Cyber Release suggested requiring information such as any unauthorized data access or alteration and the remediation status. However, based on comments received, the SEC decided to streamline disclosure to focus on the impacts of a material cybersecurity incident, rather than on requiring the details regarding the incident itself to strike a balance between investors' needs and registrants' security posture, considering concerns about disclosing specific details that could exacerbate security threats. Additionally, the Release notes the Board would expect inclusion of whether the firm has reported the incident to other authorities.[24] This is not included in the SEC Cyber Release, and this could have unintended

[23] See SEC Release No. 33-11216, Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure.

[24] See page 40 of the Release.

consequences. We recommend that the PCAOB reporting requirements remain consistent with the final SEC Cyber Release when "providing a brief description of the event."[25]

There is also a lack of clarity regarding the interpretation of the term 'significant' as used in the Release to establish the threshold for reporting cybersecurity incidents. In comparison, the SEC Cyber Release mandates the disclosure of 'material' cybersecurity incidents, and we suggest aligning the terminology. The concept of 'materiality' is widely recognized and understood by audit firms and the broader capital markets, and it offers a more precise description of the assessment process for determining if incidents meet the reporting requirement.

Further, the Release is not clear about the concept of a related group of cybersecurity incidents. If the intention is to encompass related grouped incidents, we recommend incorporating a clear definition of what constitutes a related group. Clarity is required regarding the identification of related incidents and the suggested timeline of occurrence. For example, while two events may be related, if they occur with a significant time gap of, say, several years, it remains uncertain whether such incidents would be classified as related for the purpose of determining the reporting requirement. Providing explicit guidance on these matters would enhance clarity and support consistent application of the reporting framework.

We acknowledge that the proposed reporting period within five business days may be sufficient and timely and aligns with the SEC Cyber Release. The alternative period of 'with all practicable speed' introduces ambiguity. Such a vague timeframe could lead to inaccurate or incomplete reporting or may hinder a thorough assessment of a cyber incident.

We also do not support that any additional information would be relevant, including the use of outside consultants. Given the proposed regulatory follow-up, the Board may be able to request additional information pertaining to specific incidents as deemed relevant. Having firms subsequently provide information that the Board believes is necessary reduces the overall compliance costs by not requiring firms to produce unnecessary information initially. However, we also request clarity regarding the actions the Board may take in connection with any reported cybersecurity incidents, including the proposed 'regulatory follow-up'.

With respect to the scope of cybersecurity incident triggering reporting, to align with the Board's mandate, the disclosure requirements should be limited to incidents impacting issuers or broker dealer companies under audit. Given the sensitivity around cybersecurity, a more narrowed scope from the more broadly used third parties would provide the most relevant information to investors and audit committees.

As it relates to disclosures regarding cyber policies and procedures, while we are supportive of high-level disclosure, we oppose any requirement to make public anything too specific, as that could compromise our security, which in turn could compromise the security of our issuer audits.

Updated Description of QC Policies and Procedures

While we agree updated QC related information may be relevant, we do not support that such statement is necessary. Such a requirement could potentially lead to redundancies with the requirements of QC 1000 and potentially cause confusion among stakeholders. Additionally, a definition of 'material change' within the context of QC policies and procedures would be needed to support such reporting.

[25] See page 40 of the Release stating that the disclosure should include sufficient information regarding whether any data was stolen, altered, accessed, or used for any unauthorized purpose and whether the firm has remediated or is currently remediating the incident, among other items.

If Form QCPP is retained, additional clarity is needed regarding the expectations surrounding the disclosure of the firm's quality control policies and procedures under QC 1000.[26] For example, is the identification of quality objectives, risks and related responses the intended disclosure? Alternatively, it is not clear if disclosure of policies and procedures purported to be 'under QC 1000' requires the firm to conclude that the firm has designed a QC system compliant with QC 1000. If so, we recommend further insights on how the Board expects firms to demonstrate that they have designed a QC system in accordance with QC 1000 by the specified date of December 15, 2025. Specifically, does the firm need to test and conclude on the aspects specifically outlined in QC 1000.06. If so, this would appear to introduce two evaluation dates in the year of adoption (December 15, 2025 and September 30, 2026) which would be inappropriate and inconsistent with the firm's annual evaluation.

Economic Analysis

The economic analysis conducted lacks clarity in justifying the need for expanding firm reporting requirements to further public interest and protection of investors. The current reporting practices and how investors and audit committees use information about firms are not clearly understood from the analysis within the Release, making it challenging to evaluate the comprehensiveness of the cost/benefit analysis performed. Further, the economic analysis appears to be inappropriately based on a premise that audit committees do not currently receive the information they require to fulfill their fiduciary responsibilities. Our experience indicates that audit committees who ask for supplemental information about the firm receive the information. Therefore, no incremental benefits to audit committees beyond the current state appear to exist.

Benefits

While input from the ACAP[27] and the PCAOB Investor Advisory Group are important and we acknowledge calls by investors for expanded information about audit firms, uncertainty remains about how investors as a whole will use and respond to the proposed information requirements. The Release cites academic studies that found audit firms subject to transparency regulations display improvement in audit quality, and transparency is associated with improved investor confidence.[28] However, it's worth noting that this discussion excludes evidence from one of the studies, which suggests results are not robust to all types of firms. Further, it excludes a third study which failed to find an association between increased transparency disclosures in EU countries and audit quality, potentially overstating the benefits described of increased firm reporting requirements.[29]

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[26] See proposed Form QCPP General Instructions within the Release stating that firms should not submit their entire internal quality control manual in response to the item, but rather prepare a concise document that addresses their quality control policies and procedures in relation to QC 1000.

[27] Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury (Oct. 6, 2008) (ACAP Final Report)

[28] See footnote 25 in the Release.

[29] Deumes, Schelleman, Vander Bauwhede, and Vanstraelen (2012) "*Audit firm governance: Do transparency reports reveal audit quality?"* published by Auditing: A Journal of Practice & Theory, 31(4), pp.193-214.

Costs and unintended consequences

We agree with Board Member Ho's comment that the Release quantified neither the increased reporting and recordkeeping requirements nor their estimated cost.[30] For example, the detailed explanation of costs overlooks the potential for increased litigation and enforcement costs resulting from such disclosures.

The economic analysis conducted should also consider the additional costs and potential unintended consequences associated with expanded firm reporting requirements, including the implications of imputed knowledge for audit committees. It is crucial that the Board be mindful of the potential drawbacks of a perceived data dump of information. This can result in information overload and give rise to claims of imputed knowledge. Additionally, audit committees already possess the ability to request additional information from firms as part of their audit oversight responsibilities. Audit committees can, and in our experience, do request information that they believe will enable them to effectively fulfill their oversight role and make informed judgments regarding the quality of the firm. The proposed level of transparency would result in a significant amount of information, which may imply an expectation that the audit committee is required to consume and take action based on all information in their oversight role irrespective of whether the audit committee actually believes the information is decision-useful, which might result in increased audit committee liability that was not considered as an unintended consequence within the Release.

Similar to our concerns outlined in our comment letter on PCAOB Release 2024-004, the Release will likely have an unintended consequence of reducing competition in the profession given the higher compliance costs. The Board should consider the unintended consequences on smaller firms resulting from onerous compliance requirements. The Release does not adequately explain or quantify the burden of compliance in comparison to the benefits, particularly for smaller firms. If the Board does proceed with additional firm reporting requirements, we recommend limiting such requirements to those audit firms that issued audit reports for more than 100 issuers in the calendar year. This threshold is a well-established and understood threshold, as it is the same threshold for annual firm inspection requirements and certain requirements in QC 1000. This threshold would allow for scalability and reduce the compliance burden on smaller firms.

We have provided comments based on our initial review and data-gathering. More information is requested to understand how the firm reporting requirements align with the stated objective of the Release and the decision-usefulness to investors, audit committees and other stakeholders. We strongly recommend additional outreach and research to determine the specific needs of the public interest before adopting duplicative or incremental compliance requirements, as we have outlined in this letter. We also emphasize the importance of confidentiality for proprietary network and firm information or information that may increase confusion among stakeholders without providing a direct link to audit quality.

Due to the extent of the proposed amendments in the Release and simultaneous efforts to respond to the PCAOB Release No. 2024-002, *Firm and Engagement* Metrics, the requested response time was insufficient to perform a full analysis, identify unintended consequences, and fully evaluate the economic analysis and conflict of laws analysis. We also acknowledge the Board's recent adoption of QC 1000 may also impact our considerations related to the Release, and we have not had sufficient time to analyze the extent of those impacts.

[30] See statement from Are We Regulating the Audit Firms or Driving Out Competition? by Christina Ho, Board Member.

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We appreciate the Board's consideration of our comments and observation, and we would be pleased to discuss our observations with the Board and its staff at your convenience. We look forward to continuing our engagement with the Board and its staff in support of our shared commitment of investor protection and audit quality.

Sincerely,

KPMG LLP

KPMG LLP