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Ms. Phoebe W. Brown, Secretary  
Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, DC 20006-2803

7 June 2024

**Re: PCAOB proposing release on Firm Reporting  
(PCAOB Release No. 2024-003; Docket Matter No. 055)**

Dear Ms. Brown:

Ernst & Young LLP (EY US) appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board (PCAOB or Board) on the proposed amendments to its reporting requirements for registered firms (the proposal or release). We believe audits of public companies and broker-dealers play a critical role in the US capital markets by supporting confidence in financial reporting and have embraced the independent audit oversight put in place by the Sarbanes-Oxley Act of 2002 (SOX). We believe that audit quality has improved under the PCAOB's oversight of public company and broker-dealer audits. We agree with the Board's strategic goal of modernizing its standards and rules to reflect the evolving capital market environment and believe public input is a vital part of the standard-setting process.

**Overview**

We support many of the objectives underlying this proposal, including transparency about audit quality. We further recognize the importance of transparency in promoting trust in the audit due to the role the audit plays in our capital markets. We join the PCAOB in acknowledging the contribution of the Department of the Treasury's Advisory Committee on the Auditing Profession (ACAP) in this regard, although we believe it is important to recognize there has been significant evolution in our markets and in audit firm transparency since the ACAP convened 17 years ago. In addition to currently mandated disclosures, we and many firms provide significant information to the public about our audits, our organization and how we operate, as well as performance metrics to provide insights to our audit quality. Through the PCAOB inspection program, we provide extensive nonpublic information, both in response to requests from the PCAOB's Division of Registration and Inspections (DRI) and by proactively raising matters that we believe would be relevant. Audit committees also receive briefings on a variety of firm-related topics relevant to their oversight of the audit.

We support certain elements of this proposal, particularly those reflecting developments that have taken on prominence since Forms 2 and 3 were last updated, such as cybersecurity and quality controls. After careful review, we unfortunately have significant concerns about other aspects of the proposal, which we believe require further consideration for the reasons we discuss below. We believe that a number of the proposed requirements would not achieve the stated objectives of providing decision-useful information for stakeholders to assess a firm's capacity for audit quality.

In addition, it appears that much of the confidential reporting to the PCAOB would duplicate information already provided securely through the PCAOB inspection program or would expand on such reporting without a clear benefit. At the same time, reporting the information in the proposed format would require firms to make significant and costly systems changes.

Given the likely considerable implementation and compliance costs associated with the proposed reporting requirements, we encourage the PCAOB to hold roundtables and other dialogue with audit committees, investors, audit firms and others to make sure the Board receives sufficient input on how the various stakeholders consider audit quality and whether additional information is needed to better understand firms' audit quality. We appreciate this may necessitate that the PCAOB repropose the amendments.

We discuss our views about cross-cutting issues and specific provisions in greater detail below.

### **Costs outweigh the benefits**

We have carefully reviewed the proposed firm reporting requirements and support providing certain additional transparency relating to cybersecurity and quality controls. For other aspects of the proposal, we are concerned that the release does not sufficiently analyze whether the benefits outweigh the costs. This includes the need to quantify the potential costs, which we anticipate would be substantial.

While the release discusses possible benefits, including improved PCAOB oversight of registered firms and provision of decision-useful information to audit committees, investors and other stakeholders, it does not provide evidence that the proposed requirements would achieve those goals or that less expensive alternatives do not exist. In addition, we believe it is important for the PCAOB to better articulate the direct link between the proposed changes and the PCAOB's oversight as laid out by Congress in SOX.

- ▶ **Duplicative requirements:** Some of the confidential information that would be required to reported on Form 2 or Form 3 is already provided as part of the PCAOB inspection process. It is unclear why reporting the information through a form is necessary, particularly in light of the additional costs that would result due to the need for firms to update their systems to conform the information to specific formats. The proposal indicates that one benefit of mandating reporting through Forms 2 and 3 is that it would clarify the DRI's expectations of what information should be provided to DRI. However, this goal could be accomplished through less expensive means, such as the annual confidential data request from DRI.
- ▶ **Unlikely to achieve comparability:** Another stated goal of the proposal is to increase standardization and comparability among firms to facilitate PCAOB oversight, as well as decision-making by audit committees and investors. However, the proposed rule changes likely would not achieve these objectives. The firms subject to PCAOB oversight vary significantly in size and structure, likely making it difficult to achieve meaningful comparisons even if firms report the same category of information. This is true even across the Big Four accounting firms where legal structures and number of partners and staff vary considerably. At the same time, the requirement to provide standardized data would force firms to report information that does not necessarily represent how they internally manage their business.

- ▶ **Interaction with other PCAOB standard-setting:** We encourage the PCAOB to enhance its cost-benefit analysis by considering the impact of other recent PCAOB standard-setting related to firms. While some of the proposed changes, taken individually, may not appear excessively costly, if they are taken as a whole – and added to the costs of recently approved standards and those pending approval – the costs to firms (particularly smaller firms) would be unprecedented. The cost-benefit analysis should take into consideration the expected impact of such significant changes to the standards framework, including the diversion of firms’ resources and any resulting negative impact on audit quality.

### **Proposed reporting discounts the SOX oversight framework**

The proposal seeks to establish a basis for the proposed new audit firm public disclosures by stating that disclosure is “essential to capital formation and allocation.”<sup>1</sup> However, such a framing for audit firm reporting requirements does not appear to consider the robust auditor oversight framework built by Congress through SOX and which has been in place now for over 20 years.

SOX established two powerful independent auditor oversight mechanisms: the PCAOB and independent audit committees, both of which have insight into audit quality at the firm and engagement levels and already have effective tools to address audit quality issues. While SOX mandates public reporting of some information by PCAOB-registered firms, that information is limited. Instead, firms are subject to regular inspections by the PCAOB and the inspection results are published, unlike those of federal financial regulators, including the SEC. In this context, as mandated by SOX, the objective of investor protection is primarily achieved through comprehensive oversight.

Despite SOX’s comprehensive audit oversight provisions, however, several of the proposed requirements appear to apply elements of the disclosure based public company regulatory framework, including prescriptive and highly detailed reporting requirements. Given the success of SOX and the contributions that the PCAOB and independent audit committees have made to improving audit quality over the past two decades, we believe this approach is unwarranted and unnecessary.

### **Demand-driven reporting**

We believe information that audit firms share publicly on operational topics, such as firm governance and network affiliations, should continue to be driven by established audit committee oversight and the related evolving demand for information. To fulfill their auditor oversight responsibilities, audit committees frequently seek information from firms, which shifts over time based on the changing business environment. Many firms, including EY US, annually publish information derived from these audit committee interactions, reflecting current audit quality developments and risks. Competition among audit firms also helps incentivize additional disclosures.<sup>2</sup> In addition to consistency with the SOX framework, this firm-determined, demand-driven approach produces disclosures that are more likely to be decision-useful.

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<sup>1</sup> Release, p. 4.

<sup>2</sup> An example of this is the annual EY **audit quality report**. This report includes key information from our discussions with audit committees to facilitate their oversight, which we supplement via discussions. EY also makes these reports public and evolves them from year to year based on market and other developments.

Below we provide comments on certain provisions of the proposal.

## Governance

The proposal would significantly expand required public reporting relating to firm governance. This would include information that is already public, such as the name of the principal executive officer, as well as detailed nonpublic operational information, such as the approval processes that would govern a change in the form of the organization. It is not clear how this array of information from all firms would be useful to stakeholders in assessing a firm and its ability to deliver audit services.

While we do not support the proposed requirements on governance reporting, if the PCAOB determines that firm reporting on governance should be enhanced, we believe certain proposed requirements would provide greater benefits in terms of transparency and accountability to stakeholders than others. These include disclosure of the principal executive officer,<sup>3</sup> members of any governing board or management committee, the name of the officer(s) who oversee the audit practice and a description of any independent audit oversight body and related information. Consistent with other Form 2 reporting requirements, we urge the PCAOB to clarify that any description of governance should be brief.<sup>4</sup>

We are not supportive of the other proposed governance disclosures because they would include operational details of audit firms that would not incrementally help stakeholders assess a firm or its ability to deliver audit services. For example, disclosures of the names of individuals in lower ranking executive and quality control roles, including direct reports to the principal executive officer and the individuals assigned other quality control roles by QC 1000, would have no bearing on audit quality. Additionally, a description of the processes governing a change in the form of the organization can be complex and difficult to understand without significant context.

If the PCAOB decides to require governance disclosures, we propose the following text changes:

### Item 1.4 Audit Firm Governance Information

- a. Identify the principal executive officer of the Firm ~~and all direct reports to that officer, including names and titles.~~
- b. State whether the Firm has a governing board or management committee to which the principal executive officer reports and, if so, identify the members of that board or committee.
- c. Identify executive officer(s) who oversee(s) the Firm's audit practice.
- d. ~~Provide a brief description of the legal structure, ownership, and governance of the firm, including processes that would govern a change in the form of the organization (e.g., what are the relevant governing bodies, voting rights, and approval requirements relevant to such an organizational change).~~ In addition, indicate any change in the form of organization specified on Form 1, Item 1.4.

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<sup>3</sup> The principal executive officer also is the officer with ultimate responsibility for the firm's quality control system, according to QC 1000 paragraph .11.

<sup>4</sup> See, for example, Item 5.2 of Form 2.

e. Identify the individuals who have the roles and responsibilities described in paragraphs [.11] and ~~[.12]~~ of [QC 1000].

f. Provide a brief description of the Firm's independent oversight function for the audit practice, or state that none exists, and whether it is comprised of any person who is not a partner, shareholder, member, other principal, or employee of the firm and does not otherwise have a commercial, familial, or other relationship with the firm that would interfere with the exercise of independent judgment with regard to matters related to the QC system. Identify each person or persons and provide an explanation for the basis of the firm's determination that each such person is independent (including the criteria used for such determination) and the nature and scope of each such person's responsibilities.

Moreover, we note that proposed Item 1.4(f) would require a description of a firm's "independent oversight function," which is also referred to in the release as the "External QC Function" (EQCF).<sup>5</sup> We suggest clarifying what is meant by "independent oversight function" in any final rule.

### **Network information**

The proposal would require firms to provide network-related information on Form 2, including a description of the legal and ownership structure of the network as well as network financial obligations and governing bodies. Similar to our views on the governance-related disclosures, we do not support this additional reporting as the release does not provide evidence that it would improve stakeholder assessments of a firm's ability to deliver quality audit services. Additionally, the release does not sufficiently estimate and balance the costs and benefits – including potential legal or other risks to firms – from such disclosures.

If the Board proceeds with requiring such disclosures, certain elements seem more likely to be relevant to stakeholders and would be less costly to produce, including high-level information about the legal and ownership structure of the network and information-sharing arrangements between the registered firm and the network.

We strongly oppose reporting about network-related financial obligations of the registered firm or the governing boards or individuals to which the registered entity may be accountable. Both areas are likely to be complex and potentially subject to misinterpretation without sufficient context. They also may raise legal and financial risks for firms, threatening audit quality. For example, information regarding ordinary course financial arrangements has a risk of misinterpretation without sufficient context, including a misinterpretation that a firm is at risk of failure. Requiring Form 2 reporting of this information also likely would not provide comparability benefits, given the wide variety in network structures among PCAOB registered firms. Given these complexities and the need for sufficient and appropriate context to fully understand this type of information, it would not be decision-useful information for third parties.

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<sup>5</sup> See Release pp. 29-30.

If the PCAOB decides to require network-related disclosures, we propose the following text changes:

PART V - OFFICES AND AFFILIATIONS

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Item 5.2 Audit-related Memberships, Affiliations, or Similar Arrangements

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b. If the Firm provides an affirmative response to Item 5.2.a, identify, by name and address, the entity with which the Firm has each such relationship, and provide a brief description of each such relationship. The description should include the legal and ownership structure of the network, ~~network-related financial obligations of the registered firm (e.g., loans and funding arrangements to or from the network member firm), and information-sharing arrangements between the registered firm and the network (including both sharing of such information as training materials, audit methodologies, etc. and sharing of audit client information), and network governing boards or individuals to which the registered entity may be accountable.~~

Note: Item 5.2.b does not require information concerning every other entity that is part of the network, arrangement, alliance, partnership or association, but only information concerning the network, arrangement, alliance, partnership, or association itself, or the principal entity through which it operates.

**Fee information**

Proposed Item 3.2 on Form 2 would require firms to report expanded information about fees billed for all services provided by an audit firm, not just those provided to issuers and broker-dealers. It also would require firms to provide disaggregated fee information about private entity audits. It is unclear how stakeholders are meant to use that information to assess the quality of audits provided by firms, and the release does not provide evidence that the incremental fee information would provide stakeholders with decision-useful information or help them assess a firm's ability to deliver audit services. We do not support this proposed requirement.

In addition, we do not believe the changes would accomplish other goals identified in the release. While the release asserts that this information would support differentiation among firms and an assessment of a firm's incentives, it does not indicate how the new information would have such an impact. Although the additional fee information would primarily indicate the relative size of different practices within a firm, this is already available through existing Form 2 reports and other disclosures provided by firms.

Further, one cannot conclude on a firm's incentives based on fee information in the same manner that one cannot judge a public company's incentives based on their reported revenue. Another goal of the proposed new fee reporting would be enhanced comparability among firms, but this would be severely limited given the different sizes and operating structures of the firms registered with the PCAOB – even among the largest firms.

## Financial statements

The proposal would require firms that provide audits to over 200 issuers and have more than 1,000 personnel during the preceding Form 2 reporting period to annually submit financial statements on a confidential basis. After a transition period,<sup>6</sup> the financial statements would have to be reported in accordance with US GAAP. We do not believe the proposed changes would accomplish the benefits indicated in the release, and we are concerned it would raise costs significantly.

Currently, the PCAOB obtains firm financial statements through the inspection process. The release does not indicate that the PCAOB faces challenges collecting this information, nor that it has been unable to obtain additional information if any firms' financial statements are unclear or incomplete.<sup>7</sup>

The proposal does not articulate a compelling reason why requiring US GAAP financial statements is necessary. Although the proposal suggests that the US GAAP requirement would enhance its oversight and monitoring, the Board should clarify what those enhancements would be for the purposes of evaluating the cost of producing the reporting. Additionally, it is likely that comparisons of firms regardless of the financial reporting framework would be severely limited due to the differences in operational structure of registered firms. At the same time, it would be highly expensive to change processes to prepare US GAAP financial statements.

The financial statements of EY US are prepared in accordance with its partnership agreement, which reflects the way that its owners, the partners, have agreed to manage the firm. This is also how we provide information to lenders, and it is sufficient for their purposes. We believe these financial statements meet the objectives discussed in the release, including helping the PCAOB better understand a registered firm's audit practice.

US GAAP financial statements would exist solely for the purpose of reporting to the PCAOB and would result in the divergence of resources to establish and prospectively maintain an incremental set of accounting records that would otherwise have no purpose.<sup>8</sup>

To better achieve the PCAOB's objectives, the DRI could clarify and/or standardize some key financial metrics that would be helpful in inspections through its annual data request. These metrics could be confidentially provided through the inspection process, in addition to the firms' own financial statements prepared in each firm's preferred format. For example, to measure firm strength, the DRI could ask for ratios such as partner capital or liquidity.

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<sup>6</sup> The release proposes transition provisions that would require firms to reconcile non-conforming financial statements to the applicable financial reporting framework. Given that firms would still need to produce a quantitative reconciliation in the notes to the financial statements during the transition period, we believe that any relief granted would not be substantial.

<sup>7</sup> In response to question 15 in the release, we also do not believe it would be appropriate for the PCAOB to define fiscal years for firms because this would add significant incremental costs without providing a clear benefit and purpose, as discussed in this letter.

<sup>8</sup> We recognize there are different approaches to financial statement transparency around the world, some of which are based on laws governing entity structure rather than the audit regulatory framework. For example, in the United Kingdom, limited liability partnerships are required to file financial statements with the UK Companies House.

## Special reporting

The proposal would make significant changes to Form 3, including expanded reporting on material events on a confidential basis. Proposed Item 8.1 would include matters we would expect firms to raise with the PCAOB inspections team today, which we believe limits the benefits of this proposed requirement. Mandating a reporting requirement for these events outside of the well-established inspection process would increase costs for firms, since firms would have to modify their external reporting systems to capture the information, evaluate it and submit it timely. Accordingly, we believe the current timely sharing of information through the inspections process appropriately informs the PCAOB of important firm developments and do not support the proposed reporting of these developments on Form 3.

If the PCAOB decides to include this reporting requirement in the final standard, we recommend that it significantly modify the requirement. (See also proposed changes to the Form 3 text further below.)

- ▶ First, we believe that the PCAOB should modify the thresholds for determining what should be reported to avoid overbroad reporting, as well as provide greater clarity about the Board's expectations, which is one of the PCAOB's goals for this proposed requirement. As noted above, we do not believe firms should be required to provide financial statements prepared according to US GAAP, and therefore, the SEC's guidance on materiality judgments in Staff Accounting Bulletin No. 99 (SAB 99) referenced in the release is not a workable threshold for reporting.<sup>9</sup> The PCAOB should better define the threshold for reporting and provide examples to clearly illustrate its intended reach. Without this clarification, inconsistencies in reporting are likely to arise among firms.
- ▶ Second, we believe the requirement should be revised to require firms to report only matters that have been completed. Without this change, firms could be obligated to report on normal course matters that do not come to fruition. We believe this approach would provide the PCAOB with up-to-date information about firm developments, reduce overreporting and support effective PCAOB oversight of firm compliance with its standards and rules. We expect in most instances that firms would inform the DRI as part of the inspections dialogue in the lead-up to a formal reporting trigger.
- ▶ Third, we believe certain concepts should be removed since the release does not indicate how the information would be used or would contribute to PCAOB oversight. This includes the proposed disclosure regarding insurance. Other concepts should be combined to avoid duplication, such as by merging the requirements to report on planned acquisitions of the firm, definitive agreements causing material changes to the firm's operations and any other planned material amendments to the firm's organization, legal structure or governance.

While the release indicates that information filed in response to proposed Item 8.1 would be confidential, there is no indication of confidentiality in the proposed rule text. If the PCAOB proceeds with this requirement, we ask that it revise the proposed text in Item 8.1 to clearly state the confidential treatment of this information.

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<sup>9</sup> The release states on page 37: "We recognize that materiality is traditionally defined in the securities laws from the perspective of an investor of a public company, or a private company offering securities, and that the audit firm does not have a perfectly analogous relationship to investors."



Proposed Item 8.1 would require firms to check a box on Form 3, in addition to submitting a description of an event. The release does not indicate whether the marked checkbox would be publicly visible. We do not believe the checkbox should be required, or at least it should not be publicly visible, because such a public indicator would undermine the confidentiality of the submission.

If the PCAOB decides to require material event reporting, we propose the following text changes:

#### Part VIII - MATERIAL EVENT REPORTING

Item 8.1 Any event or matter that poses a material risk, or represents a material change, to the firm's organization, operations, or provision of audit services.

If there has been any event or matter that poses a material risk, or represents a material change, to the firm's organization, operations, liquidity or financial resources, or provision of audit services, ~~indicate by checking this box and~~ provide a brief description of the event. Such events or matters would include, but would not be limited to:

- ▶ Any event or matter that has ~~had or is reasonably likely to~~ a materially<sup>10</sup> adverse impact on the firm's total revenue total fees billed as reported in its last Form 2 filing;
- ▶ A determination that there is substantial doubt about the firm's ability to continue as a going concern;
- ▶ ~~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;~~
- ▶ Entering into or disposing of a material financial arrangement that would affect the firm's liquidity or financial resources (such as a line of credit, revolving credit facility, revolver, loan, or other financing), or group of related arrangements;
- ▶ Any actual or ~~anticipated~~ non-compliance with loan covenants;
- ▶ ~~Material changes in the insurance or loss reserves of the firm and material changes related to captive insurance or reinsurance policies including events that triggered material claims on such policies~~
- ▶ Material changes in the amount of unfunded pension liabilities;
- ▶ The firm has entered into, ~~or plans to enter into,~~ a definitive agreement or other arrangement that would cause a material change to the firm's ownership, governance, operations or provision of services (e.g., spinning off consulting business or severing a portion of the business for private equity involvement);

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<sup>10</sup> This materiality threshold would necessitate staff guidance on its applicability to partnerships.

- ▶ That the firm has obtained a license or certification authorizing the firm to engage in the business of auditing or accounting and which has not been identified on any Form 1 or Form 3 previously filed by the firm, or there has been a change in a license or certification number identified on a Form 1 or Form 3 previously filed by the firm;
- ▶ A change in principal executive officer; or
- ▶ ~~Any other planned or anticipated material amendments or changes to the firm's organization, legal structure, or governance.~~

Note: This item is confidentially reported.

### Reporting timeline

Regarding the proposal to shorten the timeline for submitting items on Form 3 to 14 days from 30 days, the release does not sufficiently explain why the costs of a shortened timeframe would be justified in light of any benefit from it. This change likely would be particularly costly for smaller firms. While the release suggests that automation may reduce the costs of Form 3 reporting, many of the items on Form 3 – particularly those in proposed Item 8.1 – would require qualitative judgments by teams of people, as well as reviews by senior firm leaders. This means that such reporting cannot be automated.

The reporting clock currently starts on the date that any partner, shareholder, principal, owner or member of the firm first becomes aware of the facts that trigger special reporting. A 14-day requirement would make it more challenging to allow time for internal processes to complete. For Item 8.1, changing the date of the reporting clock to be the date on which the firm determines the event to be material could facilitate compliance and make the timeline more operable.<sup>11</sup> We encourage the PCAOB to pursue further study of when the reporting requirement would be triggered given the expanded nature of reportable events.

### New cybersecurity reporting requirements

#### *Cybersecurity policies and procedures*

We support the proposed change to Form 2 that would require firms to provide a high-level description of their policies and procedures to identify, assess and manage cybersecurity risks. We agree with the explanation of proposed Item 1.5 in the release that firms should provide a high-level description of cybersecurity policies and procedures rather than “detailed, sensitive information.”<sup>12</sup>

#### *Confidential reporting of significant cybersecurity incidents within five business days*

Although we could support confidential reporting of significant cybersecurity incidents, we believe the proposal should be adjusted in certain key aspects.

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<sup>11</sup> See question 33 in the release.

<sup>12</sup> See page 41 of the release.

First, the Board should consider the processes as they exist for issuers under Item 1.05 of Form 8-K, as well as guidance published in December 2023 by the Federal Bureau of Investigation (FBI), which “strongly encourages companies to contact the FBI ... soon after a registrant believes disclosure of a newly-discovered cybersecurity incident may pose a substantial risk to national security or public safety.”<sup>13</sup> The FBI also published guidance on how to request disclosure delays for national security or public safety reasons. The Board should explain whether and how this process, or one like it, also should apply in the context of registered firms, and whether and how the Board’s proposal may conflict with those other requirements and guidance.

Additionally, we recommend certain changes to avoid overreporting, which would not be useful for the PCAOB’s oversight. These changes also would be more consistent with existing cybersecurity incident reporting requirements to which EY US and other firms are subject. Our recommended changes include the following:

- ▶ Reporting should be required only when there is certainty about the impact of a cybersecurity incident. This approach would be consistent with that taken when reporting cybersecurity incidents to other regulatory authorities and clients and would provide greater clarity to firms about which incidents should be reported.
- ▶ The scope of the reporting requirement should be limited to matters that result in substantial impact to the audit firm’s ability to prepare and issue independent auditor reports. This would capture the cybersecurity incidents relevant to the PCAOB’s oversight.
- ▶ The rule should clarify that while firms would be required to file a report regarding a significant cybersecurity incident within five days of determining its significance, they would be able to supplement the report at a later date without penalty, once more information is known.
- ▶ The instructions to Form 3 should include information that the PCAOB would expect to be reported regarding cybersecurity incidents, as discussed in the release.<sup>14</sup>

We also encourage the PCAOB to provide additional guidance on the terms used to determine whether a cybersecurity incident is significant and reportable. For example, the guidance should indicate how a firm should evaluate which incidents are related and constitute a group for cumulative evaluation. The PCAOB also should consider providing examples to illustrate the intention, meaning and expectation for determining significant incidents.

We support confidential reporting for these incidents. For this reason, we believe the PCAOB should delete the checkbox on Form 3 indicating that cybersecurity incident report has been made or alternatively make the checkbox confidential. As indicated elsewhere in this letter, a public checkbox without any further information would undermine confidentiality.

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<sup>13</sup> **FBI Guidance to Victims of Cyber Incidents on SEC Reporting Requirements – FBI**

<sup>14</sup> The release states on page 40: “We would expect such confidential reports to include sufficient information for the PCAOB to understand the nature of the incident and whether regulatory follow-up is warranted, including a brief description of the nature and scope of the incident; when it was discovered and whether it is ongoing; whether any data was stolen, altered, accessed, or used for any unauthorized purpose; the effect of the incident on the firm’s operations; whether the firm has remediated or is currently remediating the incident; and whether the firm has reported the incident to other authorities.”

Our proposed text changes are marked below:

#### Part IX - SIGNIFICANT CYBERSECURITY INCIDENT REPORTING

Item 9.1 If there has been a cybersecurity incident, or related group of incidents, that have significantly disrupted or degraded the firm's critical operations, ~~or are reasonably likely to lead to such a disruption or degradation;~~ or those that have led, ~~or are reasonably likely to lead,~~ to unauthorized access to the electronic information, communication, and computer systems (or similar systems) ("information systems") and networks of interconnected information systems of the firm in a way that has resulted in, ~~or is reasonably likely to result in,~~ substantial impact ~~harm~~ to the audit firm's ability to prepare and issue independent audit reports ~~or a third party, such as companies under audit or investors, indicate by checking this box and providing~~ provide a brief description of the event. Such incidents or related group of incidents are deemed "significant cybersecurity incidents."

Note: The filing deadline for Item 9.1 item is five business days. For purposes of responding to Item 9.1, the five business days begins to run on the day the firm determines that the cybersecurity event is significant. This item is confidentially reported.

#### **New form on quality controls (Form QCPP):**

The release would create a new Form Quality Control Policies and Procedures (QCPP) and require firms to provide a summary, narrative description of their quality control policies and procedures pursuant to QC 1000. We support this proposed requirement since it would update the publicly available quality control information that all firms filed on Form 1 when registering with the PCAOB, which may be quite dated.

#### **Other matters**

##### **Confidentiality**

The release poses various questions about whether the information that would be reported on a confidential basis should be public and/or whether such protections should expire.<sup>15</sup> For the reasons that we have described in this letter, we do not believe it is appropriate for any of the proposed confidential information to be publicly disclosed nor for those confidential protections to expire.

##### **Effective date**

If the PCAOB finalizes this proposal without substantial modification, for many of the provisions firms would need time to develop and implement appropriate policies, processes, IT solutions and controls to comply and reasonably assure the accuracy of the required reporting. As a result, we believe it would be necessary to extend the implementation period.

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<sup>15</sup> See questions 5, 10 and 12 in the release.

We encourage the Board to engage with audit firms as it finalizes this proposal, because we believe that as adoption challenges arise, the PCAOB or its staff should also provide guidance that promotes consistent interpretation and application of the requirements.

Finally, our recommendation to extend the implementation period also considers the PCAOB's standard-setting agenda and other standards and rules being adopted and implemented over the same period.

### **Compliance with non-US law**

We encourage the Board to retain the existing confidentiality treatment provision in Form 2 and extend such provision to cover proposed items in order to allow non-US firms to request confidential treatment where a required disclosure by a firm would be in conflict with applicable local laws/regulations. Even if no conflicts of law exist now, this could change over time, and we believe it is important to keep the door open to dialogue.

### **Closing**

We appreciate the opportunity to comment on the proposal, for which we have prioritized our comments on the most significant proposed provisions to allow us time to also provide our comments on the PCAOB's proposal on firm engagement and performance metrics over the same period.<sup>16</sup>

We would be pleased to discuss our comments at your convenience and welcome continued engagement and dialogue with the Board or its staff.

Sincerely,



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<sup>16</sup> The Board also adopted two standards on quality control and on the general responsibilities of the auditor on 13 May 2024.