

June 7, 2024

SENT VIA EMAIL: comments@pcaobus.org

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

RE: PCAOB Rulemaking Docket No. 055

Dear Office of the Secretary:

We appreciate the opportunity to share our views and provide input on the Public Company Accounting Oversight Board's (PCAOB or the Board) Proposing Release, *Firm Reporting* (Proposal) outlined in its PCAOB Release No. 2024-003 (PCAOB Release).

Moss Adams LLP is the largest accounting and consulting firm headquartered in the western United States, with a staff over 4,300, including more than 400 partners. Founded in 1913, the firm serves public and private middle-market business, not-for-profit, and governmental organizations across the nation through specialized industry and service teams.

We support the Board's intentions to improve and modernize reporting requirements; address potential gaps in the information available to the PCAOB, investors, audit committees, and other stakeholders; and facilitate more complete, standardized, and timely reporting of firm information.

Significant Concerns

Utility of Reporting Elements and Impact to Smaller Firms

The Release failed to address how each of the reporting elements proposed will be used. The focus of the PCAOB appears to be providing information directly to investors, rather than the audit committees. It is unclear how the reporting elements will be useful to investors and how such disclosures improve or enhance audit quality. Consistent with our comments on QC 1000, we note the economic analysis in the Proposal fails to address the costs of compiling, reviewing, and reporting the various proposed disclosures against the benefits to audit quality and utility to stakeholders. We recommend the Board evaluate the cumulative costs of this Proposal, PCAOB Release No. 2024-002, *Firm and Engagement Metrics*, and QC 1000, *A Firm's System of Quality Control* how the requirements interact and the benefit to stakeholders. In terms of how the various disclosures enhance the PCAOB's regulatory function, each of the disclosures should be considered as to how individually or taken together provides information on a firm's ability to conduct quality audits.

There is no scaling nor evaluation in this Proposal as to the true efficacy of the proposed reporting to stakeholders. Applying the requirements to all firms ignores the vast differences in firm portfolios and

coverage of the capital markets. Imposing such intensive reporting (compounded by other standards) puts considerable strain on the firms such as ours that provide audit services to the 40% of issuers that represent <2% of the overall capital market capitalization.

The compounding requirements from the various proposals add costs in terms of personnel, systems, and reporting that cannot simply be absorbed by firms and in particular smaller to midsize firms. Firms with smaller issuer client bases have fewer clients to spread such overhead costs, thus increasing costs to the issuers representing <2% of the capital markets which will result in a corresponding increase in cost to the Issuer. Without scalability, we are also concerned that this Proposal and the cumulative effect of other standards will heighten costs and barriers to serve smaller issuers. A reduction in Firms that service the 40% of issuers that represent <2% of the overall capital market capitalization could be detrimental to such issuers as a decrease in market competition which would disproportionately affect smaller issuers and further increase the concentration of public companies audited by the large international firms. Such requirements also present a huge barrier to entry to any firm considering becoming a PCAOB registered firm. We strongly encourage scaling the required reporting and to consider the decision usefulness to the intended users for each requirement.

Other Comments

Financial Information: Fee Information

The Proposal includes proposed reporting on Form 2 a firm's total fees obtained for audit services for the year, broken down by fees from issuers, fees from broker-dealers, and fees from "other companies under audit (delineating sources, e.g., fees from private company audits and custody rule audits)" as well as fees from tax and other accounting services, and non-audit services). We object to the disclosure of fee information related to non-issuer clients. The relationship of a firm's audit practice to its overall business is illustrated in current reporting requirements and adding dollar values is unnecessary. It is unclear how fees from such services provide meaningful information on a firm's technical and operating capacity and allocation of resources.

The proposed fee reporting requirements are unclear as some read the requirement to report on Form 2 the various fees (i.e., other accounting services, tax service, non-audit services) for issuers while others have interpreted this to include private company audits. We suggest all incremental fee information be limited to fees related to issuers.

Financial Information: Financial Statements

The Proposal includes a requirement for financial statements, prepared in accordance with U.S. GAAP or IFRS), to be submitted on a confidential basis to the PCAOB for large firms (i.e., firms with more than 200 reports issued for issuer audit clients and had more than 1,000 personnel during the relevant reporting period). It is not customary for CPA Firms to prepare financial statements in accordance with U.S. GAAP or IFRS, thus compliance with this requirement comes at a substantial cost. The financial statements used by a Firm to manage its practice would achieve the PCAOB's intention of understanding the relation of a firm's audit practice to its overall business. As to the overall financial stability of a firm, we question the assertion that having complete financial information from the largest firms may facilitate the Board's regulatory response in the event of, for example, special solvency-related events. Such a substantial reporting requirement should be underpinned by explicit utility.

Governance Information

The Proposal includes amendments to Form 2 to create new Item 1.4, disclosing information about the firm's leadership, legal structure, ownership, and whether the firm has an external oversight function for the audit practice. Many of the proposed reporting requirements are redundant with reporting required under QC 1000 but cover different periods, thus, the disclosures could be different. We recommend the Board evaluate the reporting that will come with QC 1000 to determine if additional and duplicative reporting, and the related cost, is warranted.

Special Reporting

The proposal includes amendments to Form 3 to (1) shorten its reporting deadline to 14 days (from 30) after the triggering event occurs, or more promptly as warranted, and (2) impose a general special reporting obligation (on a confidential basis) for 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 ("Expanded Scope of Special Reporting").

While we support timely reporting, we question if there is evidence indicating that the current 30-day timeline is insufficient or detrimental. As to the clarity of guidance we have two comments.

First, it is unclear what the Board intends by "or more promptly as warranted" and suggest clarification to promote better understanding and consistency in application. The determination of when an event is substantially likely to occur cites an example as the preparation of public relations plans. However, this is flawed as these plans are often developed early in an event's lifecycle to be ready if the event were to occur. There are many instances where public relations plans are never deployed making them a poor indicator of an event's likelihood.

Further, the evaluation of materiality related to this reporting is overly broad and challenging to apply. The analogy of the SEC guidance on qualitative materiality does not translate to the type of reporting the PCAOB proposes. Further clarity is needed to define what is meant by a material circumstance or event, as the qualitative aspects of circumstances that may influence the degree of trust or reliance that a reasonable investor would place in the audit report are too broad.

Second, it is unclear how the confidentiality of the items will be handled; whether all Expanded Scope of Special Reporting items reported on Form 3 would be treated as confidential and remain so.

Cybersecurity Disclosures: Cybersecurity Incident Reporting

The Proposal includes revisions to Form 3 to require the reporting (on a confidential basis) of significant cybersecurity incidents within five business days (after the firm determined it to be significant). "Significant cybersecurity incidents" are defined as:

"those 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 harm to the audit firm or a third party, such as companies under audit or investors
...

The proposed definition of “significant cybersecurity incidents” need to be more specific.

- Disruption or degradation of operations is too broad. For example, internet carriers have outages which cause disruption and degradation of services but would not be cybersecurity incidents.
- “Likely to lead to” is too broad. It is common for entities to be responding to a high volume of vulnerabilities which are “likely to lead to” compromise and disruptions if not patched.

We suggest that the reporting focus on confirmed breaches and to provide clarity as to when reporting is required. We also believe that all reporting should be confidential due to sensitivity of the information to the audit firm and its IT security protocols and also because client data, subject to confidentiality rules, may be part of the information required to be reported.

Cybersecurity Disclosures: Cybersecurity Policies and Procedures

The Proposal revises the Annual Report Form to require a brief description of the audit firm’s policies and procedures, if any, to identify, assess, and manage material risk from cybersecurity threats. We do not disagree with the Proposal regarding the importance of cybersecurity policies and procedures and we believe the proposed disclosure requirements are reasonable.

We acknowledge the outreach the Board conducted with its Investor Advisory Group (IAG) and its references to the 2008 Department of the Treasury Advisory Committee on the Auditing Profession (ACAP) Report. However, given the concerns over cost-benefit analysis of the proposed reporting, expanded outreach to a wider range of stakeholders to include the SEC’s Small Business Capital Formation Advisory Committee, audit committees, investors and other stakeholders, to determine whether the proposed disclosures provide decision-useful information and how such information would be used.

We appreciate the opportunity to comment on the Proposal. As the Board gathers feedback from other interested parties, we would be pleased to discuss our comments or answer any questions that the Board may have regarding the views expressed in this letter. If you require further information regarding our response, please contact Laura Hyland, Senior Manager in our Professional Practice Group, at 206-748-4911 or by email at Laura.Hyland@mossadams.com or Michael Spencer, Partner in our Professional Practice Group, at 408-916-0589 or by e-mail at Michael.Spencer@mossadams.com.

Sincerely,

