Members of the Investor Advisory Group

Via Email

May 29, 2024

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

PCAOB Rulemaking Docket Matter No. 041, Firm and Engagement Metrics and PCAOB Rulemaking Docket Matter No. 055 Proposing Release: Firm Reporting.

Dear Secretary Brown and Members of the Public Company Accounting Oversight Board (PCAOB or Board):

The Members of the Investor Advisory Group (MIAG)[1] appreciate the opportunity to comment on the PCAOB's "Firm and Engagement Metrics" (F&EM Proposal)[2] and "Proposing Release: Firm Reporting" (FR Proposal)[3] (collectively, the Proposals). The remainder of this letter begins with a discussion of MIAG views on the FR Proposal followed by a discussion of MIAG views on the F&EM Proposal. Both discussions begin with a summary of the MIAG views followed by a more detailed discussion in response to select categories of issues raised by the respective Proposals.

FR Proposal

Summary of MIAG's Views

The MIAG strongly supports the FR Proposal which implements a long overdue 2008 recommendation of the U.S. Department of Treasury Advisory Committee on the Auditing Profession (ACAP Report) to require audit firms to uniformly disclose certain information about their organization and operations and for larger audit firms to issue audited financial statements. We believe the FR Proposal can produce significant benefits to

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[1] This letter represents the views of Investor Advisory Group (IAG) and does not necessarily represent the views of all its individual members, or the organizations by which they are employed. IAG views are developed by the members of the group independent of the views of the Public Company Accounting Oversight Board (PCAOB) and its staff. One IAG member voted against the issuance of this letter and are free to express their views individually. For more information about the IAG, including a listing of the current members, their bios, and the IAG charter, see https://pcaobus.org/about/advisory-groups/investor-advisory-group.

[2] Firm and Engagement Metrics, PCAOB Release No. 2024-002 (Apr. 9, 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket_041/2024-002-firm-and-engagement-metrics.pdf?sfvrsn=f98148f_2.

[3] Proposing Release: Firm Reporting, PCAOB Release No. 2024-003 (Apr. 9, 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-055/2024-003-firmreporting.pdf.

investors by providing information they currently don't have access to that can assist them in making more informed decisions about whether to vote to approve the ratification of the auditor or the election or reelection of the audit committee chair or members, or in exercising their responsibilities for oversight of the audit committees of public companies. For those benefits to be fully achieved, we recommend several improvements to the FR Proposal for the Board's consideration, including:

- Requiring the proposed financial statements of the larger audit firms:
    - To be audited; and
    - To be made publicly available.
- Requiring the proposed statement on policies and procedures to identify and manage cybersecurity risks to be broadened to include technology-related risks (e.g., artificial intelligence).
- Requiring the proposed expanded material event reporting:
    - To include notifications from regulatory agencies; and
    - To include an explanation of the term "material."

A more detailed discussion of our views on the FR Proposal categorized by subject matter follows:

Proposed Revisions to Annual Report Form (Form 2)[4]

We generally support the proposed revisions to Form 2 to require more information from audit firms regarding a number of matters.[5] Three of the most significant proposed revisions to Form 2 relate to: (1) audit firms providing governance information;[6] (2) the largest auditing firms confidentially submitting financial statements to the PCAOB on an annual basis; and (3) a statement on firm's policies and procedures to identify and manage cybersecurity risks. As indicated by PCAOB Chair Erica Y. Williams, the first two proposed revisions "were called for in the . . . [ACAP Report] and . . . have been recommended by the PCAOB's Investor Advisory Group [(IAG)] and Emerging Issues Advisory Group."[7] The ACAP Report recommendation stated:

> Urge the PCAOB to require that, beginning in 2010, larger auditing firms produce a public annual report incorporating (a) information required by the EU's Eight Directive, Article 40 Transparency Report[[8]] deemed appropriate by the PCAOB, and (b) such indicators of audit quality and

[4] *See* PCAOB Release No. 2024-003 at iv-ix ("Form 2 – Annual Report Form").
[5] *Id.*
[6] *See id.* at vi ("Item 1.4").
[7] Erica Y. Williams, Chair, PCAOB Open Board Meeting: Chair Williams' Statement on Firm Reporting Proposal (Apr. 9, 2024), https://pcaobus.org/news-events/speeches/speech-detail/chair-williams--statement-on-firm-reporting-proposal#:~:text=For%20the%20second%20time%20today,committees%20with%20consistent%2C%20comparable%20information.
[8] DIRECTIVE 2006/43/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, Official J. of the Eur. Union, ch. XX, art. 40 (May 17, 2006), https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A32006L0043#d1e1520-87-1 ("1. Member States shall ensure that statutory auditors and audit firms that carry out statutory audit(s) of public-interest entities publish on their websites, within three months of the end of each financial year, annual transparency reports that include at least the following:

(a) a description of the legal structure and ownership;
(b) where the audit firm belongs to a network, a description of the network and the legal and structural arrangements in the network;
(c) a description of the governance structure of the audit firm;
(d) a description of the internal quality control system of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;

> effectiveness as determined by the PCAOB in accordance with Recommendation 3 in Chapter VIII of this report. Further, urge the PCAOB to require that beginning in 2011, the larger auditing firms file with the PCAOB on a confidential basis audited financial statements.[9]

Governance Information[10]

The proposed revisions to Form 2 on audit firm governance information are similar to some of the disclosures long required by the European Union Eight Directive, Article 40 Transparency Report (EU Report) contained in the ACAP Report recommendation.[11] More specifically, the EU Report includes disclosure requirements about a description of the legal structure and ownership; and where the audit firm belongs to a network, a description of the network and the legal and structural arrangements in the network.[12]

The ACAP Report found that "[a]uditing firms and investors . . . expressed support for requiring U.S. auditing firms to publish reports similar to the . . . [EU Report]."[13] And it referenced supporting statements, including that of James S. Turley, the then chair and chief executive officer of Ernst & Young LLP.[14]

We support the proposed revisions to Form 2 regarding "Audit Firm Governance Information."[15] We agree with the PCAOB:

> [That the existing] . . . voluntary transparency reports have not resolved the present opacity with respect to audit firm structure, governance, and operations [and the proposed revisions] . . . can mitigate the lack of transparency through enhanced governance reporting requirements, which would also increase standardization of the information available.[16]

We also agree with the PCAOB:

> [T]hat enhanced governance information would allow *investors,* audit committees, and other stakeholders to better understand the practices of firms and differentiate among firms with respect

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(e) an indication of when the last quality assurance review referred to in Article 29 took place;
(f) a list of public-interest entities for which the audit firm has carried out statutory audits during the preceding financial year;
(g) a statement concerning the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;
(h) a statement on the policy followed by the audit firm concerning the continuing education of statutory auditors referred to in Article 13;
(i) financial information showing the importance of the audit firm, such as the total turnover divided into fees from the statutory audit of annual and consolidated accounts, and fees charged for other assurance services, tax advisory services and other non-audit services;
(j) information concerning the basis for the partners' remuneration").

[9] Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VII:20 (Oct. 6, 2008) (on file with the MIAG).
[10] *See* PCAOB Release No. 2024-003 at vi ("Item 1.4 Audit Firm Governance Information").
[11] *See* DIRECTIVE 2006/43/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, Official J. of the Eur. Union, ch. XX, art. 40.
[12] *Id.*
[13] Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VII:21.
[14] *See id.* at VII:21 n.91 ("suggesting the PCAOB require auditing firms to publish transparency reports like the European Union's Article 40 Transparency Report")
[15] *See* PCAOB Release No. 2024-003 at vi.
[16] *Id.* at 28-29.

> to, for example, leadership, oversight of the audit practice, oversight of auditor independence practices, and board of directors composition, including independence of directors. Governance reporting would provide more information to allow stakeholders to understand internal firm processes and priorities that may influence a firm's provision of audit services. For example, independent governance of registered firms has long been suggested as a means of improving audit quality. In that context, disclosure of the . . . firm's audit oversight function would therefore inform stakeholders of a governance mechanism that they may consider relevant to audit quality, which would align with our goal of improving the ability of stakeholders to understand an audit firm and assess its services. Governance information would also provide a more comprehensive lens through which to view and understand other, more granular firm and engagement-level metrics including those being proposed in the PCAOB's [F&EM Proposal] . . . project. In addition, requiring this information through a reporting requirement would increase the standardization, and therefore comparability, of information available to *investors,* audit committees, other stakeholders, and the PCAOB.
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> . . . Moreover, public reporting on governance processes may lead to increased engagement between audit firms and audit committees, *investors,* and other stakeholders, which may similarly influence a firm's approach to governance.[17]

Financial Statements[18]

At the outset, we note that proposed revisions to Form 2 requiring certain large audit firms to "confidentially file with the Board financial statements[] for the fiscal year"[19] is generally consistent with the ACAP Report recommendation requiring that "beginning in 2011, the larger auditing firms file with the PCAOB on a confidential basis audited financial statements . . . ."[20]

And we agree with the PCAOB's proposed definition of a larger firm to include one "that has issued more than 200 audit reports for issuers and has more than 1,000 personnel during the preceding Form 2 reporting period"[21] "because the role those firms play in the audit market and the value of having their financial statements available . . . for . . . use . . . such as . . . detectable unexplained changes in a firm's financial health."[22] We, however, respectfully request that the proposed revisions be amended in at least two ways, both of which we believe are highly relevant to the usefulness of those statements to investors: (1) requiring the financial statements to be audited; and (2) requiring the audited financial statements to made be publicly available.

In support of our first proposed revision, we note that the ACAP Report's recommendation explicitly required "audited" financial statements. And many prominent investors supported the ACAP Report's recommendation on this point including Dennis Johnson, then senior portfolio manager, corporate governance, California Public Employees' Retirement System; Paul G. Haaga, Jr., then vice chairman, Capital Research and Management Company; and John Biggs former chief executive officer and chairman, TIAA-CREF.[23]

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[17] *Id.* at 30-32 (emphasis added & footnotes omitted).
[18] *See id.* at i-ii ("Rule 2208").
[19] *Id. at* viii.
[20] Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VII:21.
[21] PCAOB Release No. 2024-003 at ii.
[22] *Id.* at 86.
[23] *See* Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VII:22 n.93.

As described in the FR Proposal, members of the PCAOB's IAG have long expressed support for the ACAP Report recommendation and at a 2017 meeting of the IAG, the "members recommended by unanimous consent that the Big Four provide annual *audited* financial statements."[24]

In further support of our first proposed revision and in support of our second proposed revision, we note that for more than a dozen years auditing firms in the United Kingdom (UK) have publicly issued annual reports containing audited financial statements. One recent example we reviewed was the PricewaterhouseCoopers LLP UK publicly issued "financial statements for the financial year ended 30 June 2023"[25] audited by "Crowe U.K. LLP."[26]

We believe that many investors would find that some aspects of the audited financial statements and related footnotes of PricewaterhouseCoopers LLP UK provide useful information when making proxy voting decisions or in exercising their oversight responsibilities of public company audit committees.[27] We also believe many investors would find some aspects of the accompanying independent auditor's report provide useful information when making proxy voting decisions or in exercising their oversight responsibilities of public company audit committees, including the report's discussion of "*materiality*"[28] and the key audit matters on "*Revenue recognition and the valuation of contract assets*"[29] and "*Provisions for claims and regulatory proceedings*"[30] and the related findings of Crowe UK LLP.[31]

We also note that the "Co-Chairs Statement" contained in the ACAP Report penned by former Securities and Exchange Commission (SEC) Chairman Arthur Levitt, Jr. and former SEC Chief Accountant and Senior PricewaterhouseCoopers LLP Partner Donald T. Nicolaisen endorsed a revised version of the ACAP Report recommendation to "require that at least the largest auditing firms . . . make *audited* financial statements available . . . to . . . *the investing public*.[32] In support of their recommendation, the former SEC Chairman and SEC Chief Accountant explained:

> The largest auditing firms play a vital role in ensuring the integrity of our capital markets and fairness requires that if a handful of these firms dominate the public company audit market, they

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[24] Steven B. Harris, Board Member, PCAOB, Address at the 2017 International Institute on Audit Regulation: Audit Industry Concentration and Potential Implications (Dec. 7, 2017), https://pcaobus.org/news-events/speeches/speech-detail/audit-industry-concentration-and-potential-implications_674 (emphasis added).
[25] UK Annual Report 2023, PricewaterhouseCoopers LLP, Members' Report on Financial Statements for the Financial Year Ended 30 June 2023 at 1 (2023), https://www.pwc.co.uk/annualreport/assets/2023/pwc-uk-financial-statements-2023.pdf.
[26] *Id.* at 8.
[27] *See, e.g.,* Council of Institutional Investors, Policies on Corporate Governance, § 2.13a Audit Committee Responsibilities Regarding Independent Auditors (updated Mar. 6, 2024), https://www.cii.org/corp_gov_policies (indicating that when evaluating the external auditor the audit committee (and investors overseeing the audit committee) should consider a number of factors including "the level of transparency and robustness of the audit firm with the audit committee and investors, including with respect to audit quality indicators, governance practices and underlying principles, and the financial stability of the audit firm . . . .").
[28] PCAOB Release No. 2024-003 at 5.
[29] *Id.* at 6.
[30] *Id.*
[31] *See, e.g.,* Council of Institutional Investors, Policies on Corporate Governance, § 2.13a Audit Committee Responsibilities Regarding Independent Auditors (indicating that when evaluating the external auditor the audit committee (and investors overseeing the audit committee) should consider a number of factors including "the clarity, utility and insights provided in the auditor's report . . . .").
[32] Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at II:9 (emphasis added).

> should be transparent and provide a level of financial reporting that is generally comparable to that of the public companies they audit.[33]

We strongly agree with the recommendation and reasoning of former SEC Chair Levitt and SEC Chief Accountant Nicolaisen.

Cybersecurity Risks[34]

We support the proposed revision to Form 2 requiring a "Statement on Policies and Procedures to Identify and Manage Cybersecurity Risks."[35] We agree with the PCAOB that "reporting of such information would inform . . . *investors,* audit committees, and other stakeholders of critical information regarding the potential for disruptions of audit firm operations that may impact the provision of audit services and indicate potential compromises of individual or issuer information, and information regarding the audit firm's management of cybersecurity risk that would inform decision-making and risk assessment."[36]

We also agree with the PCAOB:

> [T]hat *investors*, audit committees, other stakeholders, . . . would benefit from information regarding a firm's policies and procedures related to cybersecurity risks. Such information would allow all parties to assess and understand a firm's vulnerability to cybersecurity incidents that may ultimately: (1) expose issuer data to third parties and/or bad actors, and/or (2) impact audit firm operations or audit quality."[37]

We also agree with the PCAOB:

> The proposed disclosures . . . would provide *investors* and audit committees with information to understand efforts taken to protect an issuer's confidential data. The proposed disclosures would also facilitate differentiation among firms based on information that could help *investors* and audit committees assess a firm's vulnerability to cyberattacks, which could impact a firm's operations and ability to continue delivering quality audit services.[38]

Finally, we would respectfully recommend that the PCAOB consider broadening the proposed "Statement on Policies and Procedures to Identify and Manage Cybersecurity Risks"[39] to a "Statement on Policies and Procedures to Identify and Manage Technology-related Risks (e.g., Artificial Intelligence)." We believe understanding audit firm policies and procedures to identify and manage cybersecurity *and* artificial intelligence risks is essential and has obvious potential benefits for investors, audit committees, and the work of the PCAOB.

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[33] *Id.*
[34] *See* Release No. 2024-003 at vi ("Item 1.5").
[35] *Id.*
[36] *Id.* at 18 (emphasis added).
[37] *Id.* at 40 (emphasis added).
[38] *Id.* at 75 (emphasis added & footnotes omitted).
[39] *Id.* at vi.

Proposed Revisions to Special Reporting Form (Form 3)[40]

We support the proposed revisions to Form 3 to expand the scope of "Material Event Reporting"[41] and to require "Significant Cybersecurity Incident Reporting."[42]

Material Event[43]

We agree with the PCAOB that:

> Timely reporting on events (including solvency-threatening events) that may materially impact the firm's operations, and therefore its provision of audit services, would provide . . . more complete information regarding the audit firm and its audit practice. The proposed material event reporting would enhance the . . . understanding of significant events at the . . . firms . . . including events that may pose a risk not just to an individual firm, but to the broader market for audit services, such as a large firm exiting the market.[44]

We also agree with the PCAOB that "[b]ecause changes in the information environment since the Board adopted Form 3, . . . 30 days represents too delayed a reporting timeframe for events with 'immediate bearings' and [the proposed] 14 days represents a more appropriate reporting deadline."[45] We believe that reducing the reporting period as proposed means investors can have more access to important information on a more timely basis.

We also agree with the PCAOB that the "costs to accelerate reporting would be incremental and may be assisted by greater automation in the reporting function at some firms [and because] Form 3 triggers 'are not events that routinely occur'. . . [t]his should likewise mitigate the costs of accelerated reporting requirements."[46]

We, however, would respectfully recommend the following two amendments to the proposed requirements for material event reporting. First, we would amend the "non-exhaustive list"[47] of events that if material, should be reported to include: "Notifications from regulatory agencies (e.g., Boards of Accountancy, IRS, FBI)." And second, we would amend the proposed requirements to insert a footnote to the first reference of "material" to explain the meaning of the term, including the term's relationship to the "SEC guidance"[48] on materiality.

Significant Cybersecurity Incident[49]

We believe reporting cybersecurity incidents and breaches is important to investors. And transparency in this area should bring the added benefit of encouraging greater efforts by the audit firms to defend sensitive data. We, therefore, agree with the PCAOB that:

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[40] *See* PCAOB Release No. 2024-003 at x-xi ("Form 3 – Special Reporting").
[41] *Id.* at xiii-xiv.
[42] *Id.* at xiv.
[43] *Id.* at xiii-xiv.
[44] *Id*. at 36.
[45] *Id.*
[46] *Id.* at 38-39 (footnote omitted).
[47] *Id.* at 39.
[48] *Id*. at 37.
[49] *See id.* at xiv ("Item 9.1").

> [S]ignificant cybersecurity incident information is important to the . . . ability to understand significant events at the firms . . . and to assess whether their operations and/or issuer and investor information has been compromised in a way that would affect the provision of audit services or that otherwise merits follow-up. . . . Requiring this information . . . would increase the standardization and timeliness of information collected.[50]

Proposed New Form "Update to the Statement of Applicant's Quality Control Policies and Procedures"[51] (Form QCPP)[52]

We support the proposed new Form QCPP. We agree with the PCAOB that:

> [I]t is important that firms update the statement regarding their quality control policies and procedures, originally made in connection with their registration application, to reflect the changes to their policies and procedures made in response to the new quality control standard. . . . [And] it would increase transparency to *investors* . . . who could then evaluate whether and how firms are addressing QC 1000."[53]

Proposed Economic Analysis[54]

We believe the economic benefits of the FR Proposal to investors, including after adopting our proposed amendments exceed the costs. As indicated, we believe the proposed disclosures would provide significant benefits to investors by providing them with information they currently don't have access to.[55] And that information can assist them in making more informed voting decisions about whether to approve the ratification of the auditor as recommended in the ACAP Report[56] and supported by corporate governance best practices,[57]

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[50] *Id.* at 40.
[51] *Id*. at 6.
[52] *See id.* at xvi-xviii.
[53] *Id.* at 42 (emphasis added).
[54] *See id.* at 42-86.
[55] *See, e.g.,* Kara M. Stein, Board Member, PCAOB Open Board Meeting, Building Transparency about Factors Influencing Audit Performance: Proposal to Require Reporting of Firm and Engagement Metrics (Apr. 9, 2024), https://pcaobus.org/news-events/speeches/speech-detail/building-transparency-about-factors-influencing-audit-performance--proposal-to-require-reporting-of-firm-and-engagement-metrics ("It is often said that auditing is a 'credence good,' that is, its operation and qualities are hard to observe [and] [t]his is because investors . . . lack the information available to auditors, and the companies they audit, about what auditors do and how they do it.").
[56] *See* Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VIII:20 (recommending adoption of shareholder ratification of public company auditors by all public companies and noting that "[e]venthough ratification . . . is non-binding . . . experts consider this a best practice serving as a 'check' on the audit committee").
[57] *See, e.g.,* Council of Institutional Investors, Policies on Corporate Governance, § 2.13f Shareowner Votes on the Board's Choice of Outside Auditor ("Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor [and] [i]n practice, if the board's selection fails to achieve the support of a significant majority, such as 80%, of the for-and-against votes cast, the audit committee should: (1) solicit the views of major shareowners to determine why a meaningful minority of shareowners dissented from ratification and (2) take the shareowners' views into consideration and reconsider its choice of auditor.").

or the election or reelection of the audit committee chair or members. The proposed disclosures, as amended, would also benefit investors in exercising their oversight responsibilities of public company audit committees.[58]

We agree with the PCAOB that the FR Proposal disclosures:

> [W]ould facilitate better-informed appointment decisions and monitoring by audit committees and better-informed appointment ratification decisions and monitoring by *investors* because the disclosures would enhance audit firm transparency with a cost-effective source of standardized information across firms and over time. To the extent that firm operating characteristics provide *investors* and audit committees with information to assess a firm's capacity, incentives and constraints, the proposed disclosures would serve as a potential resource for more reliable audit committee appointment of the firm and *investor* ratification of the appointment proposal.
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> . . . [W]ould benefit [investors] by being enabled to more efficiently and effectively evaluate firms.
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> . . . Standardization of the proposed disclosures would decrease *investors*' and audit committees search costs and monitoring costs.
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> . . . In addition to assisting *investor*s with their appointment ratification votes and monitoring an audit firm, the proposed disclosures would assist *investors* in monitoring and evaluating the audit committee. The audit committee is responsible for overseeing the firm and the proposed disclosures may assist *investors* in determining whether the audit committee is effective in this role . . . . Enhanced *investo*r monitoring of the audit committee could improve audit committee effectiveness.
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> . . . [E]ither individually or taken together with other factors, . . . [the proposed disclosures] enhance the information environment for *investors* and audit committees.[59]

In addition, we agree with PCAOB Chair Williams that the FR Proposal would benefit investors in the following ways:

> [It would] strengthen the PCAOB's ability to protect *investors*, while also providing *investors* with additional data to inform their own decisions and empowering audit committees with consistent data to analyze and compare as they are selecting and monitoring audit firms.[60]

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[58] *See, e.g.,* Council of Institutional Investors, Policies on Corporate Governance, § 2.13a Audit Committee Responsibilities Regarding Independent Auditors (indicating that when evaluating the eternal auditor the audit committee (and investors overseeing the audit committee) should consider a number of factors including "the level of transparency and robustness of the audit firm with the audit committee and investors, including with respect to audit quality indicators, governance practices and underlying principles, and the financial stability of the audit firm . . . .").

[59] PCAOB Release No. 2024-002 at 62-64 (emphasis added & footnotes omitted).

[60] Erica Y. Williams, Chair, PCAOB Open Board Meeting: Chair Williams' Statement on Firm Reporting Proposal (emphasis added).

Similarly, we agree with PCAOB Board Member Kara M. Stein who stated that the FR Proposal "will provide information that *investors,* audit committees, and others in the financial markets can better understand and evaluate their auditor and the audit process."[61]

Finally, we also agree with PCAOB Board Member Anthony C. Thompson, that:

> *[I]nvestors* and other stakeholders, including audit committees, will have more information to consider in their evaluation of firms. This is particularly important in the common public company process that leads to the appointment of an audit firm, and then *shareholder* vote on ratification of such appointment.[62]

F&EM Proposal

<u>Summary of MIAG Views</u>

The MIAG strongly supports the F&EM Proposal which, like the FR Proposal, implements a long overdue 2008 recommendation of the ACAP Report to provide investors with decision-useful metrics about audit firms and individual audits. We believe the proposed metrics would provide significant benefits to investors by providing information they currently don't have access to that can assist them in making more informed decisions about whether to vote to approve the ratification of the auditor or the election or reelection of the audit committee chair or members, or in exercising their responsibilities for oversight of the audit committees of public companies.

We recommend several improvements to the F&EM Proposal for the Board's consideration, including:

- Omitting the proposed allocation of audit hours metric.
- Requiring metrics not proposed:
    - Percentage of firm revenues invested in training audit professionals.
    - Percentage of firm revenues invested in technology accessible by audit team; and
    - Percentage of PCAOB Part 1.A infractions of the total tested.
- Requiring metrics to be disclosed in both the Form AP and Form FM *and* in the auditor's report.
- Amending the proposed audit firm's voluntary narrative disclosures from no more than 500 words per metric to no more than 1,000 words per metric.
- Post-implementation actions:
    - Providing high quality tools to search and analyze the metrics.
    - Conducting and releasing research on the metrics to show how they might be used by investors; and
    - Establishing a process of periodic reviews to allow for potential improvements to the metrics.

[61] Kara M. Stein, Board Member, PCAOB Open Board Meeting, Investor Protection and Understanding Audit Firms: The Proposal to Enhance Firm Reporting (Apr. 9, 2024), https://pcaobus.org/news-events/speeches/speech-detail/investor-protection-and-understanding-audit-firms--the-proposal-to-enhance-firm-reporting (emphasis added).
[62] Anthony C. Thompson, Board Member, PCAOB Open Board Meeting: Statement in Support of Firm Reporting (Apr. 9, 2024), https://pcaobus.org/news-events/speeches/speech-detail/statement-in-support-of-firm-reporting-proposal-thompson (emphasis added).

A more detailed discussion of our views on the F&EM Proposal categorized by subject matter follows:

Proposed Metrics

In 2008 the ACAP Report included the following recommendation relating to firm and engagement metrics:

> Recommend the PCAOB, in consultation with auditors, investors public companies, audit committees, board of directors, academics, and others, determine the feasibility of developing key indicators of audit quality and effectiveness and requiring auditing firms to publicly disclose these indicators. Assuming development and disclosure of indicators of audit quality are feasible, require the PCAOB to monitor these indicators.[63]

The recommendation was based on the ACAP Report's findings that the public disclosures of key indicators could enhance "the ability of smaller auditing firms to compete with larger auditing firms, auditor choice, *shareholder* decision-making related to ratification of audit selection, and PCAOB oversight of registered auditing firms."[64]

As indicated in the F&EM Proposal, the IAG has a long history of supporting PCAOB action to implement the ACAP Report recommendation.[65] That history includes:

- "At its October 2013 IAG Meeting, the IAG working group on audit quality indicators made recommendations for the PCAOB to prescribe informative, forward-looking disclosures and indicators intended to measure the quality of audits and enhance auditor accountability. They argued that investors and audit committees generally care more about the quality and credibility of audit work on specific engagements—the companies in which they have invested or were considering investing, or the company on whose board of directors they served—rather than firms' more general efforts to improve quality. Accordingly, in addition to disclosures and metrics to be reported at the firm level, they also recommended disclosures and metrics to be reported at the engagement level."[66]
- "At the October 2017 IAG meeting, an IAG working group discussed three topics: (i) why audit quality and [audit quality indicators] AQIs matter to investors, (ii) the PCAOB's authority and efforts to date to enact AQIs, and (iii) audit quality initiatives in other jurisdictions. The 2017 working group also endorsed the 2013 AQI working group's recommendations."[67]
- "[At the] October 2022 . . . IAG meeting[], several members indicated that stakeholders continue to be interested in firm and engagement metrics. Some members of the IAG . . . requested increased information at the firm and engagement levels through easily accessible and quantified metrics, potentially with accompanying context provided by the auditors."[68]

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[63] Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VIII:14.
[64] *Id.* at VIII:15 (emphasis added).
[65] *See* PCAOB Release No. 2024-002 at 9-12; George R. Botic, Board Member, PCAOB Open Board Meeting: Statement in Support of Firm and Engagement Metrics Proposal (Apr. 9, 2024), https://pcaobus.org/news-events/speeches/speech-detail/statement-in-support-of-firm-and-engagement-metrics-proposal ("Our . . . IAG . . . have discussed the topic at multiple meetings and provided valuable input and perspectives [and] [t]hat history, as acknowledged in the release, underscores how strongly investors and other stakeholders have sought this type of information").
[66] PCAOB Release No. 2024-002 at 9 (footnote omitted).
[67] *Id.* (footnote omitted).
[68] *Id.* at 11.

- "Additionally, in a January 2023 comment letter on the PCAOB's proposed quality control project [(January 2023 Letter)],[69] members of the IAG advocated for 'a minimum requirement of eight indicators.' These eight indicators were (i) staffing leverage; (ii) partner workload; (iii) manager and staff workload; (iv) audit hours and risk areas; (v) quality ratings and compensation; (vi) audit fees, effort, and client risk; (vii) audit firm's internal quality review results; and (viii) PCAOB inspection results."[70]

Consistent with the IAG's past support of the ACAP Report recommendation and the January 2023 Letter, we provide the following comments on each of the proposed metrics and related matters:

Partner and Manager Involvement[71]

We support the proposed partner and manager involvement metrics. We believe, consistent with the January 2023 Letter,[72] that the proposed disclosure of hours worked by senior professionals relative to more junior staff across the firm and on the engagement level is valuable. We agree with the PCAOB that "[l]ess extensive supervision raises the risk of less effective audit procedures [and] [w]ith a lower ratio of senior management team time to staff time, the risk may be greater that partners and managers may not have sufficient time to supervise and review staff work and evaluate audit judgments."[73]

Workload[74]

We support, consistent with the January 2023 Letter,[75] implementing the proposed workload metrics to ensure appropriate attention and focus on audit engagements. We agree with the PCAOB that "in general, the greater the workload, the greater the likelihood that members of the engagement team may have insufficient time to appropriately perform the necessary audit procedures and make the appropriate judgments that an audit requires."[76]

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[69] *See* Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB 5 (Jan. 13, 2023), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/4_iag.pdf?sfvrsn=1941e7c0_4.
[70] PCAOB Release No. 2024-002 at 11-12 (footnote omitted).
[71] *See id.* at A1-5 ("Total audit hours for partners and managers on the engagement team as a percentage of total audit hours for all issuer engagements for which the Firm issued an audit report during the 12-month period ended September 30."); *see id.* at A2-6 ("Total audit hours for partners and managers on the engagement team as a percentage of total audit hours.").
[72] *See* Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting "[t]he 'staffing leverage' indicator measur[ing] the time of experienced senior personnel relative to the volume of audit work they oversee").
[73] PCAOB Release No. 2024-002 at 38.
[74] *See id.* at A1-5-A1-6 ("Average weekly hours worked by the Firm's (i) engagement partners and (ii) partners (excluding engagement partners preceding 12-month period ended September 30 (e.g., September 30, 20XX, June 30, 20XX, March 31, 20XX, and December 31, 20YY)."); *see id.* at A2-6 ("Average weekly hours worked (i) the engagement partners and (ii) partners (excluding engagement partner), managers, and staff, on the core engagement team, calculated for each of the preceding three fiscal quarters up to the *issuer's* fiscal year end and the portion of the final fiscal quarter of the engagement through the issuance of the audit report.").
[75] *See* Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting a '"partner workload' indicator generat[ing] data about the level of work for which the audit engagement partner is responsible and the number of claims on his or her attention" and an " indicator [that] would provide information about the workload of audit managers and audit staff.").
[76] *See* PCAOB Release No. 2024-002 at 41.

Audit Resources – Use of Auditor's Specialists and Shared Service Centers[77]

We support the proposed audit resources – use of auditor's specialists and shared service centers metrics. We agree with the PCAOB that "[g]iven the prevalence of the use of both specialists on the evaluation of significant accounts and disclosures, the use of [shared service centers] to reduce tasks performed by the core engagement team and . . . the variety of methods firms use to involve specialists, . . . the proposed metrics would provide useful information."[78]

Experience of Audit Personnel[79]

The proposed experience of audit personnel metrics would require the average number of years worked at a public accounting firm by senior professionals across the firm and on the engagement, which we believe is appropriate. We agree with the PCAOB that the "auditor's years of experience at a public accounting firm may provide useful information about how the auditor approaches the audit."[80] "[And] requiring [a] metric on years of experience at a public accounting firm may provide incremental information by providing a uniform method of calculating and enabling comparisons across firms and engagements."[81]

Industry Experience of Audit Personnel[82]

We support the proposed industry experience of audit personnel metrics. We believe that it is critical for auditors to have an elevated level of industry-specific knowledge. We agree with the PCAOB that "[u]nderstanding the experience of firm's audit personnel across industries is an important factor in determining whether the firm has the capacity and resources to perform audits of issuer engagements that benefit from specific industry knowledge [and] . . . the . . . metric would assist in gaining that understanding."[83]

Retention and Tenure[84]

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[77] *See id*. at A1-6 ("Percentage of issuer engagements that used (i) auditor's specialists and (ii) shared service centers, calculating the metrics for the 12-month period ended September 30 for all issuer engagements for which the Firm issued an audit report."); *see id.* at A2-7 ("Percentage of total audit hours provided by (i) auditor's specialists and (ii) shared service centers").
[78] *Id.* at 48.
[79] *See id. at* A1-6 ("Average experience at a public accounting firm for the Firm's (i) engagement partners and (ii) partners (excluding engagement partners) and managers, as of September 30."); *see id.* at A2-9 ("Experience of Audit Personnel for the following individuals and groups: (i) Total experience at a public accounting firm of the engagement partner; (ii) Total experience at a public accounting firm of the engagement quality reviewer, and (iii) Average experience at a public accounting firm of the core engagement team who are partners (excluding the engagement partner) and managers").
[80] *Id.* at 56.
[81] *Id.* at 57.
[82] *See id.* at A1-8 ("For each industry sector that represents at least 10% of the Firm's audit practice based on revenue from audit services, the number of the Firm's (i) partners with more than five years of industry experience and (ii) managers with more than three years of industry experience, as of September 30. Firms may, but are not required to, provide the same metric for one or more industry sectors that represent less than 10% of the Firm's audit practice based on revenue."); *see id.* at A2-10 ("Experience in the *issuer's* primary industry: (i) Years of industry experience of the engagement partner; (ii) Years of industry experience of the engagement quality reviewer, and (iii) Number of partners (excluding the engagement partner) and managers on the engagement team with industry experience, combined.").
[83] *Id.* at 57.
[84] *See id.* at A1-10 ("Retention and headcount change of (a) the Firm's partners and (b) the Firm's managers for the 12-month period ended September 30: (i) Average number of the Firm's partners and managers. (ii) Average annual retention rate (percentage of the Firm's partners and managers who remained employed with the Firm for the entire 12-month period)."); *see id.* at A2-11 ("Retention,

We support the proposed retention and tenure metrics. We agree with the PCAOB that "a comparatively high rate of turnover or higher-than-expected turnover could adversely affect the audit."[85] While we support the proposed firm-level and engagement level retention and tenure metrics, we acknowledge that the tenure metric across a firm is less informative than on an engagement.

Audit Hours and Risk Areas[86]

We support, consistent with the January 2023 Letter,[87] the proposed audit hours and risk areas metric on an engagement-only basis. We agree with the Board that "this metric would provide information regarding the extent to which partners and managers focused on areas that present a higher overall risk of material misstatement to the financial statements."[88]

Allocation of Audit Hours[89]

We would not object if the proposed allocation of audit hours metric were omitted from the final standard. It is unclear to us whether the metric is meaningful because we believe it might be impacted by among other factors, macro-economic trends, company controls and activities, and use of shared service centers. More generally, we believe the proposed metric may require too much explanation to provide meaningful comparisons.

Quality Performance Ratings and Compensation[90]

We support, consistent with the January 2023 Letter,[91] the proposed firm level only quality performance ratings and compensation metrics. We agree with the PCAOB that "comparing the relationship between internal firm quality performance ratings and changes in compensation levels could provide evidence of the extent of any correlation between quality performance ratings and compensation, and thereby provide an important signal of the value of a quality commitment for the firm."[92]

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headcount change, and tenure of (a) the partners and (b) the managers of the core engagement team during the engagement: (i) Average annual retention rate (percentage of core engagement team partners and managers from the most recent previous audit period who remained on the engagement during the current fiscal year audit period) (ii) Average annual headcount change (changes in the number of core engagement team partners and managers from the most recent previous audit period to the current audit period) (iii) Average tenure on the engagement (average number of years on the engagement) for partners and managers of the core engagement team.").

[85] *Id.* at 70.

[86] *See id*. at A2-12 ("The sum of total audit hours incurred in areas of significant risk, critical accounting policies and practices, and critical accounting estimates, by all partners and managers on the engagement team as a percentage of total audit hours incurred by partners and managers on the engagement team.").

[87] *See* Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting an "indicator [that] measures the time spent by members of the audit team at all levels on risk areas identified by the firm during audit planning.").

[88] PCAOB Release No. 2024-002 at 80.

[89] *See id*. at A1-11 ("Percentage of total audit hours incurred (i) prior to *issuers'* year ends and (ii) following issuers' year ends, for the 12-month period ended September 30 for all *issuer* engagements for which the Firm issued an audit report."); *see id.* at A2-13 ("Percentage of total audit hours incurred (i) prior to *issuers'* year end and (ii) following the *issuers'* year end.").

[90] *See id*. at A1-12 ("Provides the potential correlation between the Firm's partner quality performance ratings and annual compensation adjustments based on the Firm's most recent annual performance evaluation and compensation adjustment process completed during the reporting period.").

[91] *See* Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting an "indicator [that] measures the potential correlation between high quality ratings and compensation increases and the comparative relationship between low quality ratings and compensation increases or decreases.").

[92] PCAOB Release No. 2024-002 at 87.

Audit Firms' Internal Monitoring[93]

We support, consistent with the January 2023 Letter,[94] the proposed audit firms' internal monitoring metrics. We agree with the PCAOB that "this metric would provide useful information to assist in understanding firms' monitoring processes and results and would also allow for comparisons regarding the volume and nature of engagement deficiencies identified."[95]

Restatement History[96]

We support, consistent with the January 2023 Letter,[97] the proposed restatement history metric. We agree with the Board that this firm-level only metric "would provide a strong measure against which other metrics may be identified in the future."[98]

Additional Metrics MIAG Supports

In addition to the proposed metrics, we respectfully recommend the Board consider three additional metrics. First, we would support a metric that provides the percentage of firm revenues invested in training audit professionals. We believe such a metric might provide useful information to investors about the firm's commitment "to building and maintaining auditor competence."[99]

Second, we would support a metric that provides the percentage of firm revenues invested in technology accessible by audit teams. We believe such a metric "could provide a sense of a firm's capacity to resolve complex accounting and auditing issues in an effective way."[100]

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[93] *See id.* at A1-13-A1-14 ("Provide, for the Firm's most recent internal monitoring cycle completed during the reporting period, (i) the period covered by such internal monitoring cycle, (ii) the percentage of issuer engagements that were selected for internal monitoring in the cycle, and (iii) the percentage of internally inspected issuer engagements where the Firm identified an engagement deficiency."); *see id.* at A2-14 ("Identify whether a previous engagement for this *issuer* was selected for internal monitoring in the firm's most recently completed internal monitoring cycle and, if so, provide (i) the year end of the engagement monitored and (ii) whether the firm identified any engagement deficiencies. If any engagement deficiencies were identified, identify (iii) the nature of the deficiencies (i.e., (a) whether the engagement deficiency relates to a financial statement line item, a disclosure, or other noncompliance with applicable professional and legal requirements, (b) the area of noncompliance, and (c) the type of deficiency (e.g., control design or effectiveness testing, test of details, or the applicable professional or legal requirement with which noncompliance was identified).").
[94] *See* Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting an "[i]ndicator [that] contains information about the internal quality reviews conducted by each audit firm").
[95] PCAOB Release No. 2024-002 at 94.
[96] *See id.* at A1-15 ("For each of the last five 12-month periods ended September 30, provide the following: (i) The number of audit reports initially issued by the Firm during that 12-month period, in connection with which any of the following subsequently occurred: (a) revision restatement of the financial statements for errors (b) reissuance restatement of the financial statements for errors (c) reissuance of management's report on ICFR disclosing an additional material weakness or additional elements to a previously disclosed material weakness. (ii) Total issuer engagements for which the Firm initially issued audit reports during that 12-month period. (iii) Total issuer engagements for which the Firm initially issued audit reports expressing an opinion on internal control over financial reporting during that 12-month period.").
[97] *See* Letter from Members of the Investor Advisory Group to the Office of the Secretary, PCAOB at 5 (supporting an "indicator [that] contains information about PCAOB inspection results relating to the engagement or the audit firm involved.").
[98] PCAOB Release No. 2024-002 at 101.
[99] *Id.*
[100] *Id.* at 120.

Finally, we would support a metric that provides the percentage of PCAOB Part 1.A infractions to the total tested. We understand that this information is already publicly available,[101] but we believe including this metric with the other required metrics would appropriately increase the prominence of this valuable information.

Proposed Public Reporting

As indicated, the IAG has a long history of supporting PCAOB action to implement the ACAP Report recommendation that explicitly calls for "requiring auditing firms to *publicly* disclose . . . indicators [of audit quality].[102] We agree with the PCAOB that there are a number of reasons why the proposed metrics should be required to be disclosed publicly, including the following:

- They "would advance *investor* protection and promote the public interest by enabling stakeholders to make better-informed decisions, promoting auditor accountability and ultimately enhancing capital allocation and confidence in our capital markets."[103]
- They "would create a useful dataset available to *investors* and other stakeholders for analysis and comparison."[104]
- They "would provide *investors,* audit committees, and other stakeholders with information that would otherwise be difficult or impossible to obtain."[105]
- They would "[c]ollectively, . . . when used in conjunction with other publicly available data . . . facilitate stakeholders' ability to assess the audit and hence the credibility of financial reporting."[106]
- They would "provide *investors* and other stakeholders with useful information about auditors, and will provide a basis of comparison for the . . . metrics."[107]
- They "would further the public interest and would serve to inform *investors* and other stakeholders."[108]
- They "would be directly responsive to [the PCAOB's] . . . statutory mandate to 'further the public interest in the preparation of informative . . . audit reports.'"[109]
- They "would aid *investor* and audit committee . . . decision making."[110]
- They would "result[] [in] comparability [that] would further aid *investor* and audit committee decision making."[111]
- They would "advance a fundamental purpose of this rulemaking—public disclosure of new information about audits and auditors [and] . . . public disclosure is consistent with Sarbanes-Oxley."[112]

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[101] *See* PCAOB, Firm Inspection Reports (last visited May 25, 2024), https://pcaobus.org/oversight/inspections/firm-inspection-reports#:~:text=One%20filtering%20option%20available%20below,appeared%20that%20the%20firm%2C%20at ("One filtering option available below is for 'Part I.A deficiency rate[]' [and] [t]his data point indicates, as a percentage of the number of audits reviewed in a particular inspection, the number of audits with respect to which the inspection identified audit deficiencies of such significance that it appeared that the firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or internal control over financial reporting.").
[102] Advisory Committee on the Auditing Profession, Final Report to the Department of the Treasury at VIII:14 (emphasis added).
[103] PCAOB Release No. 2024-002 at 3 (emphasis added).
[104] *Id.*
[105] *Id.* at 23 (emphasis added).
[106] *Id.* at 24.
[107] *Id.* at 110 (emphasis added).
[108] *Id.* at 115 (emphasis added).
[109] *Id.* at 113.
[110] *Id.* at 127 (emphasis added).
[111] *Id.*
[112] *Id.* at 114.

Finally, we agree with the PCAOB that "[b]ecause these proposed metrics would be public, the increased reputational risk they bring for auditors may, in turn, create incremental incentives for auditors that would be subject to the proposed requirements to maintain their reputation, or face a loss of business, thereby increasing accountability."[113]

Proposed Audit Firms to Report

We support the following proposed requirements for certain audit firms to report the proposed metrics:

- "Requir[ing] reporting of firm-level metrics annually on a new Form FM, *Firm Metrics*, pursuant to a new Rule 2203C, *Firm Metrics*, [[114]] for firms that serve as lead auditor for at least one accelerated filer or large accelerated filer; [and]
- Requir[ing] reporting of engagement-level metrics for audits of accelerated filers and large accelerated filers on a revised Form AP, which would be renamed "Audit Participants and Metrics' . . . ."[115]

We agree with the PCAOB on focusing "reporting requirements on situations where . . . additional perspective about the audit and the auditor would be most likely to inform the investment and proxy voting decisions that *investors* are called upon to make."[116] We also agree with the PCAOB that the proposed requirements would appropriately apply to the audits, and auditors, of companies that account for the overwhelming majority of U.S. public company market capitalization, and . . . would capture the situations where investment and proxy voting decisions would be most likely to benefit from additional information about the audit and the auditor."[117]

We also support the proposed provision "[a]llow[ing], but not requir[ing], limited narrative disclosures on both Form FM and Form AP to provide context and explanation for the required metrics.[118] We believe this provision is a critical element of the proposal because it provides the audit firms the opportunity to ensure that investors have access to a potentially more comprehensive understanding of the reported metrics by providing contextual information. More specifically, we agree with the PCAOB that this proposed voluntary audit firm disclosure could:

- "[G]ive firms the ability to provide any context they thought necessary for an appropriate understanding of the reported metrics"[119] and
- "[S]erve as a prime opportunity for the firm to communicate critical context through narratives that might be beneficial for *investors* in reviewing the proposed metrics."[120]

Given the potential importance of this proposed provision, we would not object if the Board revised the proposed "no more than 500 characters per metric"[121] limitation to "no more than a 1,000 characters per metric."

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[113] *Id.* at 135.
[114] *Id.* at A1-1.
[115] *Id.* at 5.
[116] *Id.* (emphasis added).
[117] *Id.*
[118] *Id.*
[119] *Id.* at 29.
[120] *Id.* at 178 (emphasis added).
[121] *Id.* at 29.

Finally, we would support the PCAOB's alternative of requiring the proposed metrics to be included in the audit report, in addition to, the proposed Form AP and Form FM.[122] We agree with the PCAOB that this alternative has a number of potential benefits to investors, including:

- "Costs incurred by *investors* and audit committees when gathering information to inform their decision-making could be further reduced."[123]
- "*Investors* would be able to look down from the auditor's opinion and immediately review the proposed metrics."[124]
- "[The alternative] . . . would serve as a prime opportunity for the firm to communicate critical context through narratives that might be beneficial for *investors* in reviewing the proposed metrics."[125]
- "The disclosure of the proposed metrics in the audit report would not impair the usefulness of their disclosure through Form AP and Form FM."[126]
- "[S]uch additional reporting may enhance their usefulness by setting the proposed metrics within the full context of the issuer's financial reporting."[127]
- "There likely would not be appreciable costs associated with this additional reporting, outside of costs to include the report in the filing of the audit opinion." [128]

Proposed Economic Analysis

We believe the economic benefits of the F&EM Proposal to investors, including after adopting our proposed amendments, exceed the costs. We agree with the PCAOB that:

> The proposed metrics would enhance (1) audit committees' ability to efficiently and effectively monitor and select auditors as well as (2) *investors'* ability to efficiently and effectively make decisions about ratifying the appointment of their auditors and allocating capital. Moreover, there would likely be improvements to the PCAOB's oversight programs (i.e., selection of firms, engagements, and focus areas for review), as well as to policy research. As an important indirect benefit, the proposal could further spur competition to the benefit of *investors.* These impacts could improve audit quality.[129]

We also agree with PCAOB Chair Williams that the benefits of the F&EM Proposal to investors includes:

- "Consistent, comparable information about audit firms and the issuers they audit [that] bolsters confidence, strengthens oversight, and empowers *investors* and audit committees to make more informed decisions and help drive audit quality forward."[130]

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[122] *See id.* at 178.
[123] *Id.* (emphasis added).
[124] *Id.* (emphasis added).
[125] *Id.* (emphasis added).
[126] *Id.*
[127] *Id.*
[128] *Id.*
[129] *Id.* at 137 (emphasis added).
[130] Erica Y. Williams, Chair, PCAOB Open Board Meeting: Chair Williams' Statement on Firm and Engagement Metrics Proposal (Apr. 9, 2024), https://pcaobus.org/news-events/speeches/speech-detail/chair-williams--statement-on-firm-and-engagement-metrics-proposal (emphasis added).

- "Collectively, these metrics would help *investors* make more informed decisions . . . [a]nd they would provide audit committees with consistent data to analyze and compare as they are selecting and monitoring audit firms."[131]

We also agree with PCAOB Board Member George R. Botic that the benefits of the F&EM Proposal to investors:

- "[C]an be boiled down to one concept: a need for increased transparency into the audit process. This means transparency for *investors,* for audit committee members, and for other users of financial statements. This transparency, in turn, fuels trust in those financial statements, in their audits, in the auditor, and ultimately in the auditing profession."[132]
- "[E]xtend to other areas within our larger mission of *investo*r protection and the public interest. Those benefits will evolve over time." [133]

We also agree with PCAOB Board Member Stein that the benefits of the F&EM Proposal to investors include that:

- "[I]t is a crucial step in increasing transparency for *investors* . . . and the capital markets overall."[134]
- "[The] recommendation . . . will:
  - provide information that will strengthen *investor* protection,
  - promote better informed decisions in the oversight of auditors by their clients,
  - increase auditor accountability, and
  - enhance confidence in our public capital markets."[135]
- *"[I]nvestors* and other stakeholders lack the information available to auditors, and the companies they audit, about what auditors do and how they do it."[136]
- "[A] data-driven understanding of the conditions for auditing can benefit . . . *investors* and . . . [i]t will put everyone on a more equal footing in exercising their responsibilities and understanding the audit environment."[137]

Finally, we agree with PCAOB Board Member Anthony C. Thompson that the benefits of the F&EM Proposal to investors include:

> *Investors* would now be able to horizontally compare metrics across engagements and firms. This is a level of insight not currently available in the market. These metrics, in particular at the

[131] *Id.* (emphasis added).
[132] George R. Botic, Board Member, PCAOB Open Board Meeting, Statement in Support of Firm and Engagement Metrics Proposal (emphasis added).
[133] *Id.* (emphasis added).
[134] Kara M. Stein, Board Member, PCAOB Open Board Meeting, Building Transparency about Factors Influencing Audit Performance: Proposal to Require Reporting of Firm and Engagement Metrics (emphasis added).
[135] *Id.* (emphasis added).
[136] *Id.* (emphasis added).
[137] *Id.* (emphasis added).

> engagement level, would bring a new level of transparency allowing firms to publicly demonstrate the level of audit quality they profess to provide.[138]

Post-Implementation

We believe that following the implementation of a final standard on F&EM the PCAOB staff should consider a number of ways to amplify the value of the new metrics resulting from the standard by:

(1) providing high quality tools to search and analyze the metrics;
(2) conducting and releasing research on the metrics to show how they might be used by investors; and
(3) establishing a process of periodic reviews of the metrics to allow for potential improvements.

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Thank you for considering the comments of the MIAG, who represent the primary customers of audited financial reports. If you, any members of the Board, or your staff have questions or seek further elaboration of our views, please contact Amy McGarrity at amcgarrity@copera.org.

Sincerely,

Members of the Investor Advisory Group

Members of the Investor Advisory Group

[138] Anthony C. Thompson, Board Member, PCAOB Open Board Meeting: Statement in Support of Firm and Engagement Metrics Proposal (Apr. 9, 2024), https://pcaobus.org/news-events/speeches/speech-detail/statement-in-support-of-firm-and-engagement-metrics (emphasis added).