Council of Institutional Investors®
The voice of corporate governance

Via Email

July 9, 2026

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

Reference: PCAOB Rulemaking Docket Matter No. 057, Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, And Related Rule and Forms

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

The Council of Institutional Investors (CII)[1] respectfully submits this letter in response to the PCAOB's "request for comment on potential amendments to certain provisions of QC 1000[[2]] and related amendments to the QC reporting rule PCAOB forms" (Supplemental Request).[3]

CII is a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state, and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately $5.6 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true and real "Main Street" investors through their pension funds. Our associate members include non-U.S. asset owners with about $6.6 trillion in assets, and a range of asset managers with more than $90 trillion in assets under management.

[1] For more information about the Council of Institutional Investors (CII), including its board and members, please visit CII's website at http://www.cii.org.
[2] QC 1000, A Firm's System of Quality Control, PCAOB (effective on Dec. 15, 2026), https://pcaobus.org/oversight/standards/qc-standards/details/qc-1000--a-firms-system-of-quality-control.
[3] Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, And Related Rule and Forms, PCAOB Release No. 2026-002 (June 9, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-057/2026-002-qc-src.pdf.

1828 L Street, NW | Suite 600 | Washington, DC 20036 | Main 202.822.0800 | Fax 202.822.0801 | www.cii.org

In 2023, CII commented on the PCAOB's Release No. 2022-006, *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms*[4](2023 Letter).[5] In the 2023 Letter:

> We applaud[ed] the Board for prioritizing the QC project and we generally support the Board's efforts to provide a framework for the firms to perform high quality audits. At the same time, we are disappointed that the proposed framework fails to adequately incorporate CII recommendations derived from our membership approved policies. . .. In order to correct these critical omissions . . . we respectfully request that the Board revise the [proposed amendments] . . . to include, at a minimum, the following three items:
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> 1. To require firms that issue auditor reports with respect to more than 100 issuers establish a QC committee of their board composed entirely of at least three persons independent of the firm and the firm publicly report at least annually meaningful information about how the QC committee carries out its responsibilities.
> 2. To require that the monitoring and remediation process provide for use of quantitative performance metrics.
> 3. To require public reporting regarding QC matters.[6]

In 2025 CII commented on the Securities and Exchange Commission's "Notice of Filing and Immediate Effectiveness of Proposed Rule Change Postponing the Effective Date of Amendments to Board Standards, Rules, and Forms Adopted on May 13, 2024"[7] (2025 Letter).[8] In the 2025 Letter we stated:

> We believe the PCAOB, while not adopting all the comments contained in our comment letter in response to the proposal that resulted in QC 1000, issued a final standard that significantly improves upon the previous PCAOB interim standard. The interim standard had not been updated for decades, and had been written by the American Institute of Certified Public Accountants Auditing Standards Board long before Congress created the PCAOB in the Sarbanes-Oxley Act of 2002 (SOX). We believe QC 1000 as written will better protect the interests of investors,

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[4]A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms, PCAOB Release No. 2022-006 (Nov. 18, 2022), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/2022-006-qc.pdf?sfvrsn=b89546e2_4.

[5] Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board (Jan. 19, 2023), https://www.cii.org/Files/Correspondence/January%2019%202023%20CII%20letter%20to%20PCAOB.pdf.

[6] *Id.* at 4-5 (footnotes omitted).

[7] Notice of Filing and Immediate Effectiveness of Proposed Rule Change Postponing the Effective Date of Amendments to Board Standards, Rules, and Forms Adopted on May 13, 2024, Exchange Act Release No. 100,803, 90 Fed. Reg. 42,649 (Sept. 2, 2025), https://www.govinfo.gov/content/pkg/FR-2025-09-03/pdf/2025-16826.pdf.

[8] Letter from Jeffrey P. Mahoney, General Counsel, CII to Vanessa A. Countryman, Secretary, Securities and Exchange Commission (Sept. 18, 2025), https://www.sec.gov/comments/pcaob-2025-01/pcaob202501-659987-1969374.pdf.

> consistent with the mandate set forth in SOX and our aforementioned membership-approved policy.
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> As indicated, we do not object to [postponing the effective date of QC 1000] . . .. We currently have no basis for disagreeing with the Board's decision "that an additional year is sufficient time for firms that have encountered implementation challenges to overcome those challenges." *We, however, would strongly oppose efforts to use the [postponement] . . . as a basis for "targeted revisions to the QC 1000" unless those revisions [include] . . . those recommendations contained in CII's comment letter that were not adopted in QC 1000*.[9]

In a footnote to the 2023 Letter, we described those recommendations:

> CII recommendations in response to the "A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms" that were *not* adopted by the Public Company Accounting Oversight Board (PCAOB) include: (1) *requiring for larger firms a "QC committee" composed entirely of at least three persons independent of the firm. . ..* (2) requiring that the monitoring and remediation process provide for the use of quantitative performance metrics. . .. and (3) requiring public reporting regarding quality control matters.[10]

We note that not only does the Supplemental Request fail to even discuss two of CII's three proposed recommendations referenced in the 2023 Letter,[11] but the proposed amendments actually *rescind* the QC 1000 requirement for having *any* independent QC function (EQCF).[12] As a result, we cannot support the proposed amendments.

The stated basis for the recission is the EQCF in QC 1000 is the PCAOB's concern "that the benefits of the requirement may not justify the costs, except potentially for the largest U.S. global network firms."[13] We strongly disagree. While we recognize the concerns about potential costs, liability, and implementation, we believe some form of independent challenge is critical to an effective EQCF.

It is our understanding that the QC 1000 requirement for larger PCAOB audit practices to have an EQCF would have been applicable to only five accounting firms. If our understanding is correct, we believe that fact alone should be sufficient for the Board to reject the proposed removal of the EQCF requirement.

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[9] *Id.* at 2-3 (emphasis added and footnotes omitted).
[10] *Id.* at 2 n.6 (emphasis added).
[11] *See* PCAOB Release No. 2026-002 at 21 n.56 & n.57 ("An investor group endorsed the view expressed by the PCAOB in proposing the requirement that such an oversight function could reduce negative impacts of commercial considerations on decision making by firms to improve incentives to implement QC systems that more fully meet the interests of investors and financial statement users [and] [t]he same investor-related group also recommended requiring larger firms to have a 'QC Committee' composed of at least three persons independent of the firm.").
[12] *See* PCAOB Release No. 2026-002 at 22 ("we are proposing to rescind the EQCF requirement").
[13] *Id.*

In addition, we believe there are at least two potential flaws with PCAOB's analysis of the costs and benefits of the EQCF requirement. First, the PCAOB may have understated the potential benefits of the EQCF requirement by failing to consider the impact of the ongoing trend of private equity firms investing in accounting firms.

In 2022, then Acting Chief Accountant of the Securities and Exchange Commission Paul Munter, observed that private equity investments in accounting firms "could create incentives that conflict with the auditor independence rules [and] [a]ccounting firms that enter into transactions with private equity firms should therefore proactively guard against any potential issues, including appearance issues, regarding the accounting firm's priorities and motives that could compromise its ethical responsibilities and compliance with independence requirements."[14] And just last month, George R. Botic, PCAOB Board Member stated:

> Recently, we have seen significant evolution in the accounting profession impacting firms' systems of quality control. Examples include changing firm ownership structures [and] expanding numbers of firm mergers and acquisitions . . .. These changes, in my view, underscore the need for PCAOB to provide a robust quality control framework.[15]

In addition, we observe that since 2024 two of the larger PCAOB practices that would be within the scope of the EQCF requirement became recipients of capital from private equity firms.[16] And just days ago, two more of the 20 largest accounting firms that conduct public company audits (now 10 of the 20 largest) announced deals with private equity firms.[17]

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[14] Paul Munter, Acting Chief Accountant, Statement, Auditor Independence and Ethical Responsibilities: Critical Points to Consider When Contemplating an Audit Firm Restructuring (Aug. 29, 2022), https://www.sec.gov/newsroom/speeches-statements/munter-statement-auditor-independence-ethical-responsibilities-082922.

[15] George R. Botic, Board Member, PCAOB Open Board Meeting: Inviting Broader Stakeholder Perspectives on Proposed Amendments to QC 1000, A Firm's System of Quality Control (June 9, 2026), https://pcaobus.org/news-events/speeches/speech-detail/inviting-broader-stakeholder-perspectives-on-proposed-amendments-to-qc-1000--a-firm-s-system-of-quality-control.

[16] *See* Mark Maurer, Grant Thornton Is Now the Biggest Accounting Firm to Get Private-Equity Backing, Wall Street J., Mar. 31, 2024, https://www.wsj.com/articles/grant-thornton-is-now-the-biggest-accounting-firm-to-get-private-equity-backing-f77243d5 ("The New Mountain-led group's investment constitutes a 60% stake in Grant Thornton's U.S. unit and centers on the nonaudit business, people familiar with the matter said [and] . . . the new majority owners will also have a contractual relationship with the audit business through a management services agreement between the two entities, the people said."); Courtney Vien, BDO Chose an ESOP As An Alternative to Private Equity Funding, CFO Brew, Mar. 20, 2025, https://www.cfobrew.com/stories/2025/03/20/bdo-chose-an-esop-as-an-alternative-to-private-equity-funding (The employee stock ownership plan was "financed with $1.3 billion in private credit from Apollo Global Management among others . . . .").

[17] Courtney Vien, 10 Of the Top 20 CPA Firms Are Backed by Private Equity, CFO Brew, June 26, 2026, https://www.cfobrew.com/stories/10-of-the-top-20-cpa-firms-are-backed-by-private-equity ("In recent weeks Crowe (No. 12) and Eide Bailly (No. 18) both announced deals with PE funds, the Wall Street Journal reported; Crowe sold a majority stake to KKR, in a deal worth around $3 billion, while Eide Bailly, valued at around $1.8 billion, sold a majority share to Reverence Capital Partner.").

We note that the May 2026 letter of the Members of the Investor Advisory Committee of the PCAOB in response to the Board's request for public comment on the PCAOB's strategic plan states:[18]

> [A]s discussed at the September 2024 IAG meeting, important issues have emerged about how private markets have impacted audit firm ownership structures and funding arrangements. Given the growing . . . importance of private capital, a priority for the Board's next strategic plan should include some consideration of how private markets may impact on the Board's initiatives and goals.[19]

In this circumstance, we believe the consideration of the risks that private equity investments present to audit independence,[20] including the potential trade-offs between audit quality and commercial decisions, increases the benefits of a QC 1000 EQCF requirement.

Second, we believe the PCAOB may have overstated the potential costs of the EQCF requirement. While acknowledging the narrow responsibilities of an individual serving the EQCF,[21] the PCAOB estimated the costs by considering the compensation of a "non-employee director at S&P 500 public companies"[22] and the "remuneration for individual independent nonexecutives (INEs) under the U.K.'s audit firm governance rules."[23] We believe using either of those costs as benchmarks significantly overstates the costs of the EQCF.

For all the above reasons we cannot support the proposed amendments contained in Supplemental Request in absence of an independent EQCF requirement.

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[18] Request for Public Comment, PCAOB Strategic Priorities, PCAOB No. 2026-001 (Mar. 31, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/pcaob-no2026-001-rfc-sp.pdf?sfvrsn=b6ef3170_2.

[19] Letter from Members of the Investor Advisory Group to Phoebe W. Brown, Secretary, PCAOB, ***Reference: PCAOB No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities*** 4 (May 13, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/strategic-plan-comments-2026/28_miag.pdf?sfvrsn=6ab7d737_2.

[20] *See* CII, Policies on Corporate Governance, 2.13 Auditor Independence (updated on Mar.12, 2026), https://www.cii.org/corp_gov_policies (includes seven separate provisions, including a provision that contains language emphasizing the importance of "the level of transparency and robustness of the audit firm with . . . investors, including with respect to audit quality indicators, governance practices and underlying principles, and the financial stability of the audit firm").

[21] *See* PCAOB Release No. 2026-002 at 71 ("For example, directors at S&P 500 public companies are members of a board with broad responsibilities over the company while the EQCF is focused on significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.").

[22] *Id.*

[23] *Id.* at 69.

We appreciate the opportunity to provide CII's investor-focused perspective in response to the Supplemental Request. Please contact me (jeff@cii.org) if you have any questions about the content of this letter.

Sincerely,

Jeff Mahoney

Jeffrey Mahoney
General Counsel