PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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
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PCAOB Rulemaking
Docket Matter No. 057

Summary: The Public Company Accounting Oversight Board ("PCAOB" or the "Board") is issuing a supplemental request for comment on potential amendments to certain provisions of QC 1000 and related amendments to the QC reporting rule and PCAOB forms. This supplemental request for comment seeks commenters' views on proposed amendments and other matters discussed in this release.

Public Comment: Interested persons may submit written comments to the Board. Comments should be sent by e-mail to comments@pcaobus.org or through the Board's website at pcaobus.org. Comments also may be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803. All comments should refer to PCAOB Rulemaking Docket Matter No. 057 in the subject or reference line and should be received by the Board no later than July 9, 2026.

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I. EXECUTIVE SUMMARY

We adopted QC 1000, *A Firm's System of Quality Control*, on May 13, 2024,[1] to lead registered public accounting firms ("firms") to significantly improve their quality control ("QC") systems. We believe that, as firms prepare for the effective date of QC 1000, many such improvements have been and will continue to be implemented as firms develop more rigorous QC systems. Our experience during the implementation period has led us, however, to consider whether the new standard imposes costs that may not be necessary for us to achieve our regulatory goals and, relatedly, whether there are certain aspects of QC 1000 that could be brought into closer alignment with other audit firm quality management standards.[2]

Since the U.S. Securities and Exchange Commission ("SEC") approved QC 1000 and related amendments on September 9, 2024,[3] PCAOB staff have issued guidance and engaged in implementation support efforts to educate firms and other stakeholders about the new standard and to assist firms with implementation. In the course of those activities, we have received information, including through comments submitted to the SEC after the delay in the effective date of QC 1000 and comments submitted to the Board regarding our strategic priorities, suggesting that certain provisions of QC 1000 were unclear in their application, might impose higher costs than initially anticipated in relation to the potential benefits, or might be unnecessarily prescriptive. Accordingly, we are proposing amendments to QC 1000 that we believe would address these concerns and better align certain provisions with other quality management standards, which would reduce compliance costs without compromising the Board's statutory mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

The principal proposed amendments on which we are seeking stakeholder input would:

- Rescind the "design-only" requirement so that QC 1000 imposes requirements only on firms that are required to comply with applicable professional and legal

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[1] *A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms*, PCAOB Rel. No. 2024-005 (May 13, 2024).

[2] *See* International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* ("ISQM 1"), issued by the International Auditing and Assurance Standards Board; Statement on Quality Management Standards (SQMS) No. 1*, A Firm's System of Quality Management* ("SQMS 1"), issued by the Auditing Standards Board of the American Institute of CPAs.

[3] *Public Company Accounting Oversight Board; Order Granting Approval of QC 1000, A Firm's System of Quality Control, and Related Amendments to PCAOB Standards, Rules, and Forms*, SEC Rel. No. 34-100968 (Sept. 9, 2024).

requirements with respect to any "engagement," as defined in QC 1000 (QC 1000.06 and .07d);

- Provide increased flexibility in filling certain specified roles in the QC system, including permitting roles to be assigned to non-firm personnel and divided among multiple individuals (QC 1000.12);

- Rescind the requirement for the firms with the largest PCAOB audit practices to have an External QC Function ("EQCF") (QC 1000.28);

- Narrow and simplify communication requirements relating to metrics that the firm communicates about its audit practice, firm personnel, or its engagements (QC 1000.53e);

- With respect to identified engagement deficiencies, require evaluation of whether similar engagement deficiencies exist only if the identified deficiency resulted or could result in (i) a failure to obtain sufficient appropriate evidence to support the conclusion reached on an engagement or (ii) an inappropriate overall conclusion on the subject matter of an engagement (QC 1000.68d);

- Revise the definition of QC deficiency to make clear that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses (e.g., compensating responses) into account when determining whether a QC deficiency exists (QC 1000.A8);

- Allow firms to select the date as of which they annually evaluate the effectiveness of their QC system, rather than requiring firms to evaluate as of September 30 (QC 1000.77);

- Revise the QC system evaluation conclusions to align more closely with the conclusions in other quality management standards, while retaining a structured process, including specified factors for consideration, to guide the evaluation (QC 1000.77 and .78); and

- Simplify the requirements for retention of QC system documentation and abbreviate the retention period from seven to five years (QC 1000.84 and .86).

Additional proposed amendments, including proposed conforming amendments, are discussed below.

Several of the proposed amendments would bring QC 1000 into closer alignment with other quality management standards, both internationally and in the United States. However, differences remain in areas where we continue to believe that alternative or incremental

provisions better address our legal and regulatory environment, the needs and priorities of our stakeholders, and our statutory mandate of protecting investors and the public interest.

II. BACKGROUND

This section presents background information on this supplemental request for comment, including recent rulemaking history and staff implementation support efforts since SEC approval of QC 1000 in September 2024, and the purpose of the supplemental request for comment.

A. Recent Rulemaking History

On May 13, 2024, we adopted QC 1000 and related amendments. They were approved by the SEC on September 9, 2024, with an effective date of December 15, 2025.[4]

On August 28, 2025, to provide firms with additional time for implementation, we proposed to delay the effective date of QC 1000 and related amendments to December 15, 2026, and that postponement became immediately effective.[5] The SEC received 15 comment letters in response to its notice regarding the postponement.[6] Commenters included firms and related groups, investor-related groups, and others. In addition to comments received by the SEC, the PCAOB received a letter from a firm-related group regarding implementation of QC 1000.[7]

Investor-related groups generally did not object to providing additional time for implementation to help with effective adoption of QC 1000.[8] One of these commenters particularly stressed the benefit to smaller firms.[9] However, they cautioned against using the

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[4] For a complete rulemaking history of QC 1000 to date, see Rulemaking Docket No. 046 on the Board's website, *available at* https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-046-quality-control. *See also Public Company Accounting Oversight Board; 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*, SEC Rel. No. 34-103803 (Aug. 28, 2025).

[5] *See* SEC Rel. No. 34-103803.

[6] The comment letters received are available on the SEC's webpage, *available at* https://www.sec.gov/comments/pcaob-2025-01/pcaob202501.htm.

[7] *See* letter from the Center for Audit Quality dated July 23, 2025 ("CAQ 2025 Letter"), *available at* https://www.thecaq.org/comment-letter-pcaob-requesting-deferral-qc-1000. For ease of reference, we refer to the CAQ 2025 Letter as a comment letter in this release.

[8] *See* letters from CFA Institute (Sept. 23, 2025) ("CFA Institute") and Council of Institutional Investors (Sept. 18, 2025) ("CII").

[9] *See* letter from CFA Institute.

delay as a basis for broader revisions to the standard or withdrawal of the standard.[10] Two commenters, seeking to balance investor protections and implementation concerns, recommended a phased implementation approach that would keep the original effective date for annually inspected firms while delaying it for others.[11] Firms and firm-related groups supported the one-year deferral, citing significant operational and interpretive complexity, resource constraints, and the need for testing; and for global networks, the need to coordinate across jurisdictions.[12]

Firms and firm-related groups also commented on QC 1000's divergence from other quality management standards that were adopted or became effective in recent years,[13] with some firms particularly citing its prescriptive requirements, such as those relating to:

- Roles and responsibilities,
- EQCF,
- An automated independence system,
- The evaluation framework,
- A fixed evaluation date,
- Documentation requirements, including the seven-year retention requirement, and
- The obligation to design a QC 1000-compliant system for firms that are not required to implement and operate such a QC system.

Some commenters said that these prescriptive requirements drive cost and complexity without commensurate audit-quality benefit[14] and may also incentivize withdrawal from PCAOB

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10 *See* letters from CII and CFA Institute.

11 *See* letters from CFA Institute and U.S. Chamber of Commerce (Sept. 24, 2025) ("Chamber").

12 *See* letters from Baker Tilly US, LLP (Sept. 23, 2025) ("Baker Tilly"); Chris Barnard (Sept. 22, 2025) ("Barnard"); BDO USA, P.C. (Sept. 24, 2025) ("BDO"); Center for Audit Quality (Sept. 24, 2025) ("CAQ"); Crowe LLP (Sept. 24, 2025) ("Crowe"); Deloitte & Touche LLP (Sept. 24, 2025) ("Deloitte"); Ernst & Young LLP (Sept. 24, 2025) ("EY"); Grant Thornton LLP (Sept. 24, 2025) ("GT"); KPMG LLP (Sept. 24, 2025) ("KPMG"); Plante & Moran (Sept. 22, 2025) ("Plante & Moran"), PricewaterhouseCoopers LLP (Sept. 24, 2025) ("PwC"); and RSM US LLP (Sept. 23, 2025) ("RSM").

13 *See* letters from Baker Tilly; BDO; CAQ; Crowe; Deloitte; EY; GT; Plante & Moran; PwC; and RSM.

14 *See* letters from Crowe; EY; and GT.

registration, particularly among foreign firms.[15] These commenters broadly encouraged the PCAOB and SEC to use the extension period to provide additional implementation guidance and to consider targeted amendments to enhance scalability and mitigate unintended consequences while preserving investor protections.[16]

In March 2026, we received a further letter from a firm-related group reiterating its support for targeted changes to QC 1000 to address differences between QC 1000 and ISQM 1 in the areas listed above, which it said have resulted in implementation challenges.[17]

On March 31, 2026, the Board issued a request for public comment on the PCAOB's strategic priorities, including future standard-setting activity.[18] The Board received 69 comment letters in response to its request as of June 5, 2026,[19] of which 26 raised comments specifically about QC 1000.[20]

The comments relating to QC 1000 were generally consistent with themes raised in comment letters submitted to the PCAOB and SEC in connection with the extension of the effective date of QC 1000. Comments relating to the matters on which we are soliciting comment are addressed in Section III below.

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[15] *See* letters from BDO; CAQ; Crowe; and GT.

[16] *See* letters from Baker Tilly; BDO; CAQ; EY; GT; KPMG; Plante & Moran; PwC; and RSM.

[17] *See* letter from the Center for Audit Quality dated March 20, 2026 ("CAQ 2026 Letter"), *available at* https://www.thecaq.org/letter-to-the-pcaob-on-qc1000-implementation-experience-and-costs. For ease of reference, we refer to the CAQ 2026 Letter as a comment letter in this release.

[18] *See Request for Public Comment, PCAOB Strategic Priorities*, PCAOB Rel. No. 2026-001 (Mar. 31, 2026).

[19] The comment letters received are available on the Board's website, *available at* https://pcaobus.org/about/strategic-plan-budget/public-comments-on-pcaob-strategic-priorities.

[20] *See* letters on the PCAOB's strategic priorities from Members of the Audit Committee Council (May 11, 2026) ("ACC"); Agentic CPA Inc. (May 14, 2026); AICPA (May 15, 2026); Baker Tilly US, LLP (May 15, 2026); BDO USA, P.C. (May 15, 2026); Dennis Beresford (Apr. 3, 2026) ("Beresford"); CBIZ CPAs P.C. (May 15, 2026) ("CBIZ"); Cherry Bekaert LLP (Apr. 30, 2026); Robert A. Conway (May 15, 2026); Council of Institutional Investors (May 15, 2026) ("CII 2026"); CPA Club Inc (May 14, 2026) ("CPA Club"); Deloitte & Touche LLP (May 15, 2026) ("DT 2026"); Ernst & Young LLP (May 15, 2026); Forvis Mazars, LLP (May 15, 2026); Grant Thornton LLP (May 15, 2026) ("GT 2026"); ICR Inc. (Apr. 21, 2026); The International Corporate Governance Network (May 13, 2026); Members of the Investor Advisory Group (May 13, 2026); KPMG LLP (May 14, 2026) ("KPMG 2026"); Lark Research (May 15, 2026); Pennsylvania Institute of Certified Public Accountants (May 12, 2026) ("PICPA"); PricewaterhouseCoopers LLP (May 13, 2026) ("PwC 2026"); RiskGraphs (Apr. 21, 2026); RSM US LLP (May 15, 2026) ("RSM 2026"); Tapestry Networks, Inc. (May 15, 2026); and Texas Society of Certified Public Accountants (May 11, 2026) ("TXCPA").

Most commenters urged the Board to adopt or align more closely with ISQM 1, suggesting it may better support global implementation, while emphasizing that differences in structure, terminology, and prescriptive requirements in QC 1000 create operational challenges, limit firm judgment, and increase complexity for global firms.[21]

We are proposing targeted amendments to QC 1000 rather than wholesale alignment of our standard with ISQM 1. We continue to believe that QC 1000 should be appropriately tailored to address our legal and regulatory environment and our investor protection mandate, which necessitates areas of continued divergence. We also note that, even if QC 1000 and ISQM 1 were identical, differences could still arise in the design and operation of firm QC systems due to differences in applicable professional and legal requirements, including auditing and independence standards, as well as differences in the relevant populations of engagements and in the individuals performing engagements or QC activities.

QC 1000 and related amendments are slated to take effect on December 15, 2026.[22] Commenters on our strategic priorities had opposing views on that timing, with one encouraging the Board to maintain the date[23] and another suggesting that we suspend the effective date indefinitely.[24] At this time, we are not further extending the effective date, either for the provisions as to which we are soliciting comment or for any other provisions. We believe that firms have had ample time to prepare for QC 1000 and, based on our implementation support efforts, that firms are generally in a position to implement the standard timely. We also note that the changes we are considering, which would generally relax or eliminate certain requirements of QC 1000, should not increase the time needed for implementation.

B. Implementation Support Efforts

Since SEC approval of QC 1000 and the related amendments, PCAOB staff have published a broad set of resources and tools to assist firms with implementation.[25] The staff have observed progress made by firms to implement QC 1000. The staff's activities also

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21 *See* letters from ACC; AICPA; CBIZ; CPA Club; DT 2026; Forvis Mazars; GT 2026; KPMG 2026; PwC 2026; and RSM 2026.

22 *See* SEC Rel. No. 34-103803.

23 *See* letter from CPA Club.

24 *See* letter from Beresford.

25 *See* PCAOB, *Quality Control—Implementation Resources*, *available at* https://pcaobus.org/oversight/standards/implementation-resources-PCAOB-standards-rules/quality-control, which includes staff guidance and other materials issued to support implementation of QC 1000 and the related amendments.

involved gaining an understanding of implementation challenges and questions regarding the requirements of QC 1000.

In addition, during the summer of 2025, the staff hosted two in-person QC workshops tailored for smaller firms and, to reach a broader audience, converted that content into two virtual workshops held in July 2025. In August and October of 2025, the staff also met with the Smaller Firm Resource Group, an advisory group composed of professionals from smaller audit firms, to obtain feedback on QC 1000 implementation matters.

Feedback obtained from implementation support efforts was generally consistent across firms and aligned with themes raised in comment letters submitted by some firms and firm-related groups to the PCAOB and SEC following SEC approval of QC 1000. Firms also provided additional detail during implementation support efforts and identified further operational challenges, including areas that extend beyond those raised in the comment letters.

C. Purpose of This Supplemental Request for Comment

This supplemental request for comment presents proposed amendments to certain QC 1000 requirements, and requests comment on those proposed amendments and other related matters. In developing the proposed amendments, we considered comment letters received by the SEC and the PCAOB following SEC approval of QC 1000 and by the PCAOB regarding our strategic priorities, as well as information obtained by PCAOB staff during implementation support efforts. We have also considered whether certain aspects of QC 1000 may be more prescriptive than necessary to achieve our regulatory objectives in light of the costs and implementation challenges identified by firms. We believe the proposed amendments may provide a more practical and scalable approach in certain areas, and that QC 1000, if amended as we propose, would still promote improvements in audit quality that are our ultimate goal. At the same time, we continue to believe that other requirements in QC 1000 that are not within the scope of the proposed amendments, including certain prescriptive elements, remain important to supporting consistent execution of high-quality audits.

We discuss the feedback received from stakeholders in Section III below. We believe other implementation concerns and interpretive questions may be addressed, as appropriate, through guidance.

We intend to monitor the implementation of QC 1000 through our oversight activities. The findings from this monitoring effort will inform the strategy and design of any post-implementation review of QC 1000.

III. PROPOSED AMENDMENTS TO QC 1000, RULE 2203A, AND FORM QC

This section describes the requirements of QC 1000, Rule 2203A, and Form QC that we are proposing to amend. Where we believe it would advance readers' understanding, the text

of QC 1000 is presented in text boxes, with potentially deleted text ~~struck through~~ and potential new text underscored. The full text of the proposed amendments to QC 1000 appears in Appendix 1. The full text of the proposed amendments to PCAOB Rule 2203A, *Report on the Evaluation of the Firm's System of Quality Control*, and Form QC appears in Appendix 2. Terms defined in Appendix A, *Definitions,* to QC 1000, are italicized throughout.

A. Requirement to Design, Implement, and Operate a QC System

.05 A properly conducted *engagement* and the related report enhance the confidence of investors and other market participants in the company's information to which the firm's report relates. The objective of the firm is to design~~ and, if applicable~~, implement, and operate an effective QC system. An effective QC system protects investors by facilitating the consistent preparation and issuance of informative, accurate, and independent *engagement* reports in accordance with *applicable professional and legal requirements*. To accomplish this, an effective QC system consistently provides a firm with reasonable assurance that:

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.06 A firm must design, implement, and operate an effective QC system in compliance with this standard at all times when the firm is required to comply with *applicable professional and legal requirements* with respect to any of the firm's *engagements*,[3] and thereafter through the following *evaluation date*.[4]~~a QC system that complies with this standard. To design such a QC system, the firm must:~~

~~a. Assign QC related roles and responsibilities (*see* paragraphs .10–.17);~~

~~b. Establish *quality objectives*, annually identify and assess *quality risks* to the achievement of those objectives, and design *quality responses* to address those risks (*see* paragraphs .18–.57);~~

~~c. Design a monitoring and remediation process (*see* paragraphs .58–.76); and~~

~~d. Document the design of the QC system (*see* paragraphs .81–.86).~~

[3] With respect to firm responsibilities subsequent to the issuance of an audit report, see, for example, AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*; AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*; AS 4101, *Responsibilities Regarding Filings Under Federal Securities Statutes*.

[4] *See* paragraph .77 (requiring evaluation of the effectiveness of the QC system as of ~~September 30~~the *evaluation date*).

.07 The requirement to design, implement, and operate the QC system applies as follows:

~~a. A firm must implement and operate an effective QC system at all times when the firm is required to comply with *applicable professional and legal requirements* with respect to any of the firm's *engagements*,[3] and thereafter through the following September 30.[4]~~

a~~b~~. During the time the firm's QC system is required to be operating effectively, the firm's QC system must operate over any audit, attestation, review, or other work performed under PCAOB standards by the firm, regardless of the level of the firm's participation in such work (i.e., even if the firm plays less than a substantial role).[5]

b~~c~~. A firm that is required to design, implement, and operate its QC system is also required to annually evaluate its QC system as of ~~September 30~~the *evaluation date* and report on that evaluation (*see* paragraphs .77-.80).

~~d. For any time that a firm is not required to implement and operate an effective QC system, this standard will apply to the firm only in regard to the design of the QC system (based on the *quality risks* the firm likely would face if it were to perform *engagements*) as provided in paragraph .06.~~

Note: Any obligations under QC 1000 that exist at the time a firm is no longer required to design, implement, and operate the QC system, such as obligations to evaluate and report on the QC system for previous periods, will continue.

5 *See* PCAOB Rule 1001(p)(ii).

QC 1000 requires all firms to design a QC system that complies with the standard, regardless of whether the firm is subject to applicable professional and legal requirements with respect to an "engagement" as defined in QC 1000. This "design-only" requirement elicited a significant number of comments during the rulemaking process and has continued to be an issue of concern in the stakeholder feedback received since SEC approval.[26] Some firms suggested that we eliminate the design-only requirement for firms that do not conduct such engagements.[27]

We understand that many firms subject to the design-only requirement are international global network affiliates that do not lead or play a substantial role in engagements but maintain a home country audit practice. We understand that other firms subject to the requirement include U.S.-based firms that conduct audits of private companies under the

26 *See* letters from BDO; CAQ; Chamber; Crowe; GT; PICPA; PwC; and RSM.

27 *See* letters from BDO; Crowe; PICPA; and RSM.

standards of the AICPA.[28] We expect that both types of firms would be required to comply with the quality control provisions of ISQM 1 or SQMS 1, which share a common basic structure with QC 1000. Feedback received from firms and a firm-related group suggests that the additional costs of complying with the design-only requirement of QC 1000, in addition to ISQM 1 or SQMS 1, are significant.[29] Commenters have informed us that certain firms have withdrawn from PCAOB registration as a result.[30]

We are proposing to rescind the design-only requirement. We are proposing to revise paragraphs .06 and .07 to eliminate the separate obligation to design a QC system and maintain unchanged the obligation to design, implement, and operate a QC system in compliance with QC 1000 when a firm is subject to applicable professional and legal requirements with respect to any of the firm's engagements.

We believe that the investor protection concerns encompassed by our statutory mandate are reduced where firms are not performing work that requires registration under the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and PCAOB rules[31] (i.e., not leading or playing a substantial role in audits of issuers or broker-dealers). As adopted, QC 1000 would require such firms to design a QC system specifically tailored to audits of issuers and broker-dealers, perhaps without any relevant experience and based on an assessment of hypothetical risks. The design-only requirement thus may impose costs on firms without commensurate benefits. Moreover, we do not believe that achieving the objectives of QC 1000, including compliance with our statutory mandate under Sarbanes-Oxley,[32] requires firms that are not subject to full QC 1000 implementation to design QC 1000-compliant systems.

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[28] Furthermore, we understand that some firms may register with the PCAOB to be eligible to perform certain work under financial regulatory regimes that are outside the PCAOB's jurisdiction. *See, e.g.,* Guiding and Establishing National Innovation for U.S. Stablecoins Act, Pub. L. No. 119–27 (July 18, 2025), § 4(a)(3)(A), 12 U.S.C. § 5903(a)(3)(A) (requiring month-end reports of permitted payment stablecoin issuers to be examined by a PCAOB-registered firm).

[29] *See* letters from CAQ; GT; and PwC.

[30] *See* letters from Crowe and CAQ. Section V.B. below discusses firms that withdrew from registration in connection with QC 1000.

[31] *See* Section 102(a) of Sarbanes-Oxley, 15 U.S.C. § 7212(a); PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms*.

[32] In particular, we do not believe that our proposed approach would violate the mandate in Section 103(a)(2)(B) of Sarbanes-Oxley, 15 U.S.C. § 7213(a)(2)(B), to adopt requirements "for every registered public accounting firm" that address certain enumerated areas in "the quality control standards that [the PCAOB] adopts with respect to the issuance of audit reports." Under our proposed approach, QC 1000 would apply to every firm with respect to the issuance of "audit reports" (limited under Sarbanes-Oxley to those relating to audits of issuers and broker-dealers).

Rescinding the design-only requirement would likely entail foregoing the benefits associated with greater preparedness of firms not subject to paragraphs .06 and .07 to take on a PCAOB engagement. However, such firms could still choose to design (and for that matter, implement and operate) a QC system that complies with QC 1000. Firms may choose to do so if, for example, they are planning to bid for a PCAOB engagement, are taking on work on other firms' engagements that could potentially constitute a substantial role, or otherwise wanted to put themselves in a position to implement and operate a QC 1000-compliant system on short notice. We are not proposing to modify the requirement that a firm is required to design, implement, and operate an effective QC 1000-compliant system at all times when the firm is required to comply with applicable professional and legal requirements with respect to any of the firm's engagements, as defined in QC 1000.

As an alternative to rescinding the design-only requirement, we also considered, and are soliciting comment on, two potential approaches to QC system design requirements and the possible circumstances triggering such a requirement.

First, we considered linking a design requirement to the existing statutory requirement that public accounting firms include a statement of their quality control policies in their applications for PCAOB registration.[33] Currently, the Board implements the statutory requirement by directing applicants to submit a summary description of their QC policies addressing the "areas reflected in the Board's quality control standards,"[34] which correspond to the QC areas listed in QC 20.07 but could be revised to correspond to the areas reflected in QC 1000, such as the components. Under this approach, we considered requiring firms to maintain QC policies sufficient to meet the requirements for registration without requiring them to design a fully QC 1000-compliant system.

Second, we considered retaining a design requirement applicable to all firms but simplifying the criteria the design must meet for firms that are not required to implement and operate a QC 1000-compliant system. Specifically, we considered requiring design of a QC system that addresses the components of QC 1000 without necessarily complying with all of its specific provisions.

Under these two alternatives, a firm that has already designed a QC system under ISQM 1 or SQMS 1 would not be required to perform incremental work to comply with QC 1000 until the firm becomes subject to applicable professional and legal requirements with respect to an engagement and therefore must implement and operate a QC 1000-compliant system. For

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[33] *See* Section 102(b)(2)(D) of Sarbanes-Oxley, 15 U.S.C. § 7212(b)(2)(D).

[34] *See Frequently Asked Questions Regarding Registration with the Board*, PCAOB Rel. No. 2003-011F, at Q.32 (Dec. 4, 2017), ("Registration FAQ"), *available at* https://pcaobus.org/Registration/Information/Documents/Registration_FAQ.pdf (providing guidance regarding PCAOB Form 1, *Application for Registration*, Item 4.1).

firms that are not subject to either ISQM 1 or SQMS 1, both alternatives may involve one-time QC-system design costs.

These alternative approaches could continue to impose regulatory burdens on firms that do not perform engagements, as defined in QC 1000, without clearly advancing the PCAOB's mandate to protect investors and advance the public interest in informative, accurate, and independent audit reports.

Additionally, we considered whether the obligation to design a QC system should be triggered earlier than when a firm becomes subject to applicable professional and legal requirements with respect to an engagement. An earlier trigger could strike a different balance between, on one hand, a firm's preparedness to perform engagements and, on the other hand, the costs and other burdens associated with designing a QC system, especially one that might be designed prematurely or that might never need to be implemented. We are soliciting comment on this topic.

Questions

1. Is the proposed rescission of the design-only requirement appropriate? Why or why not?

2. Is there a measurable benefit for retaining some form of design-only requirement under the requirements of ISQM 1 or SQMS 1 for firms that do not perform engagements under PCAOB standards? If so, do the benefits justify the cost of compliance? Why or why not?

3. Are there activities that should trigger a QC-system design requirement before a firm becomes subject to applicable professional and legal requirements in connection with an engagement? If so, what are they, and why should they trigger a design requirement?

B. Roles and Responsibilities

1. Assignment of roles and responsibilities

.12 The firm must assign other roles and responsibilities with respect to the QC system to ~~*firm personnel*~~individual(s)[5A] who understand and are accountable for their roles and responsibilities and who have the experience, competence, authority, and time needed to enable them to carry out their assigned responsibilities.[6] Such roles should include the following:

a. Operational responsibility and accountability for the QC system as a whole;

b. Operational responsibility for the firm's compliance with ethics and independence requirements;

c. Operational responsibility for the monitoring and remediation process; and

d. If appropriate based on the nature and circumstances of the firm, operational responsibility for other components of the QC system.

Note: ~~Each of the roles identified in subparagraphs a.-c. above cannot be shared, but rather must be assigned to only one individual. However,~~ ~~d~~Depending on the nature and circumstances of the firm (including its size and structure) and its *engagements*, the firm (i) may assign one individual to more than one of the roles identified in paragraphs .11 and .12 and (ii) may divide responsibilities of a role identified in paragraph .12 among multiple individuals.

[5A] Such individuals are "associated persons" of the firm. *See* PCAOB Rule 1001(p)(i).

[6] *See* Note in paragraph .44a. of this standard for a description of competence.

QC 1000 requires that the operational roles and responsibilities specified in paragraph .12 be assigned only to "firm personnel."[35] The note to paragraph .12 provides that responsibility for the roles in subparagraphs a.-c. cannot be shared and must be assigned to only one individual, to reinforce that the individual assigned to a specified role would be responsible and accountable for the role.

While at adoption we believed that a single individual within the firm should remain responsible for the responsibilities of the assigned roles, in connection with providing implementation support efforts we have received additional information on the operational challenges and potentially negative impacts on audit quality of this requirement that are leading us to reconsider it. Several commenters expressed concern that certain of the requirements in paragraph .12 were too prescriptive, particularly the requirement to assign these roles to firm personnel and the requirement that each role be filled by a single individual.[36] They also noted that ISQM 1 does not contain similar limitations.[37]

Some commenters suggested removing the requirement that the specified roles and responsibilities be assigned only to firm personnel and instead relying exclusively on the

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[35] *See* QC 1000.A5.

[36] *See* letters from BDO; Chamber; Deloitte; GT; and PwC.

[37] *See* letters from Deloitte; EY; GT; and PwC.

requirement that the roles be assigned to individuals with the experience, competence, authority, and time needed to carry them out.[38] Some commenters stated that audit quality may be affected because limiting these responsibilities to firm personnel may restrict firms' ability to assign roles to the most qualified individuals, particularly where the most qualified individuals may be from another network member firm or an associated entity.[39] For example, through our implementation support efforts, we understand that a single individual may act as the monitoring leader or independence leader for multiple network firms in a region, and that such an approach could help to drive consistent audit quality.

Some commenters recommended allowing the operational roles and responsibilities for ethics and independence compliance and for monitoring and remediation to be divided among qualified individuals.[40] They and another commenter said that requiring a single individual to hold such roles may not allow flexibility for intentional assignments designed to drive the highest quality outcome and promote specialization, objectivity, or workload sharing.[41] For example, some commenters stated that requiring one person to serve as both ethics and independence leader combines responsibilities that are often overseen by two individuals with different skills and experience.[42] Some commenters also said firms may need to change their operating structures to comply, creating unnecessary disruption without a commensurate benefit.[43]

We are proposing amendments to paragraph .12 to allow flexibility in assigning the specified roles and responsibilities to any individual (whether firm personnel or an "other participant"[44]), rather than limiting those roles to firm personnel. We believe this proposed amendment would support audit quality in cases where the individuals most qualified to assume responsibility for certain roles may not be firm personnel. In connection with that change, we are considering clarifying, in a new footnote 5A to paragraph .12, that an individual assigned operational responsibility for any of the roles in paragraph .12 who is not already associated with the firm would become an "associated person" of the firm by virtue of that assignment.[45] The proposed amendment, by permitting any qualified individual to fill the specified QC system roles, would align with ISQM 1.

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38 *See* letters from CAQ and KPMG.

39 *See* letters from CAQ; EY; and KPMG.

40 *See* letters from BDO; CAQ; Deloitte; EY; KPMG; and PwC.

41 *See* letters from BDO; CAQ; Deloitte; EY; GT; KPMG; and PwC.

42 *See* letters from BDO; CAQ; Deloitte; EY; and PwC.

43 *See* letters from BDO; CAQ; Deloitte; and GT.

44 *See* QC 1000.A7.

45 *See* PCAOB Rule 1001(p)(i).

To preserve the accountability and responsibility objectives of paragraph .12, we are also proposing amendments to emphasize that individuals assigned specific roles understand and are accountable for their roles and responsibilities. The proposed amendment would align with ISQM 1.

We are also proposing amendments to the note to paragraph .12 to allow firms to divide responsibilities of a role among multiple individuals. For example, a firm may assign one individual operational responsibility for ethics and another operational responsibility for independence. We believe these proposed amendments would increase flexibility in assigning these roles, reducing the need for organizational changes that may not serve audit quality and broadening the pool of individuals with the appropriate experience, competence, and authority to perform specified roles.[46]

We are considering, and soliciting comment on, whether these proposed amendments should be available only on a scaled basis, and if so, what the appropriate thresholds should be.

2. Responsibilities for roles with operational responsibility

.15 The individual(s) assigned operational responsibility and accountability for the QC system as a whole should:

a. Supervise, within the scope of their assigned responsibilities, the design, implementation, and operation of the firm's QC system in accordance with *applicable professional and legal requirements* and the firm's policies and procedures; and

b. Certify the firm's report to the PCAOB on its annual evaluation of the QC system (*see* paragraph .79).

.16 The individual(s) assigned operational responsibility for the firm's compliance with ethics and independence requirements should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's ethics and independence component (*see* paragraphs .30-.36); and

b. Communicate, on a timely basis, violations of ethics or independence requirements, including personal independence violations, to the individuals assigned (1) operational responsibility for the firm's monitoring and remediation

[46] Conforming amendments to Form QC are also being proposed, as shown in Appendix 2, to reflect the possibility that operational responsibility and accountability for the QC system as a whole would be divided among multiple individuals.

process and (2) operational responsibility and accountability for the QC system as a whole.

.17 The individual(s) assigned operational responsibility for the monitoring and remediation process should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's monitoring and remediation process (*see* paragraphs .58-.76) and the annual evaluation of the QC system (*see* paragraphs .77-.78), including:

(1) The evaluation of the results of the monitoring activities;

(2) The evaluation of whether remedial actions are implemented as designed and operate effectively to remediate *QC deficiencies* and, if not, the taking of timely action until such *QC deficiencies* are remediated; and

(3) The firm's other policies and procedures with regard to monitoring and remediation.

b. Communicate, on a timely basis, to the individuals assigned (1) ultimate responsibility and accountability for the QC system as a whole and (2) operational responsibility and accountability for the QC system as a whole, a description of:

(1) Monitoring activities performed and the results of such activities, including, if applicable, monitoring activities performed by a network;

(2) Identified *engagement deficiencies*~~,~~ and *QC deficiencies*~~, and *major QC deficiencies*~~, including the nature, severity, and pervasiveness of such deficiencies; and

(3) Actions taken to address *engagement deficiencies*~~,~~ and *QC deficiencies*~~, and *major QC deficiencies*~~.

To align with the proposed amendments to QC 1000.12, we are proposing conforming amendments to paragraphs .15-.17 that would acknowledge the possibility that multiple individuals could share the specified roles and clarify that such individuals' obligations are limited to the scope of their assigned responsibilities.

In addition, a proposed amendment to paragraph .17b(2)-(3) would delete the communication requirements related to major QC deficiencies to align with the proposed amendments to the evaluation requirement in paragraph .77 discussed in Section III.F.1.d. below.

Questions

4. Are the proposed amendments to paragraph .12, to allow (a) the specified roles and responsibilities to be assigned to individuals who are not firm personnel and (b) firms to divide responsibilities of a role among multiple individuals, sufficiently clear and appropriate? If not, why not?

5. Are the proposed conforming amendments to paragraphs .15-.17 sufficiently clear? If not, why not?

6. Would the proposed amendments to paragraphs .12 and .15-.17 support audit quality? Why or why not?

7. Should the proposed amendments to paragraphs .12 and .15-.17 be available only on a scaled basis (e.g., only to firms that issued audit reports for fewer than 100 issuers in the prior calendar year)? If so, why, and what should the relevant thresholds be?

C. External QC Function

Paragraph .28 of QC 1000 includes a specified quality response that requires firms with a larger PCAOB audit practice[47] to incorporate into their governance structure an EQCF for the QC system composed of one or more persons who:

- Are not partners, shareholders, members, other principals, or employees of the firm;
- Do not otherwise have a commercial, familial, or other relationship with the firm that would interfere with the exercise of independent judgment with regard to matters related to the QC system; and
- Have the experience, competence, authority, and time necessary to enable them to carry out the responsibilities assigned to the EQCF by the firm.

The EQCF responsibilities include, at a minimum, evaluating the significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system. Although we provided additional specificity and clarity to help firms implement the EQCF requirement,[48] we understand that firms have continued to face challenges with implementing the EQCF requirement.

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[47] Firms with a larger PCAOB audit practice are considered those firms that issued audit reports for more than 100 issuers in the prior calendar year.

[48] *See* PCAOB Letter to SEC Regarding Rule File No. PCAOB-2024-02 (Aug. 16, 2024) ("Board Letter"), *available at* https://assets.pcaobus.org/pcaob-dev/docs/default-

Most firm and firm-related groups that commented on the EQCF requirement did not support it.[49] Some commenters cited challenges and the costs associated with the EQCF requirement.[50] One commenter said the costs associated with the requirement could provide disincentives for mid-sized firms operating at or around the 100-issuer threshold to grow their public company audit practices.[51] While feedback received during implementation support efforts from firms subject to the requirement indicated that some firms expected to utilize their existing advisory structures for the EQCF, some commenters indicated that the role differs from their existing advisory board structures and necessitated the hiring of new individuals, requiring additional time and resources.[52] During implementation support efforts, at least one firm said it had engaged an EQCF. However, some commenters said there were challenges in identifying qualified individuals.[53] Some commenters did not believe there would be a corresponding improvement in audit quality that could justify the costs, especially in situations in which firms already have independent oversight in their governance structures.[54] Also, several commenters expressed concerns regarding the prescriptive nature of the EQCF requirement.[55]

An investor-related 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 and improve incentives to implement QC systems that more fully meet the interests of investors and financial statement users.[56] The same investor-related group also recommended requiring larger firms to have a "QC Committee" composed of at least three persons independent of the firm.[57] Another commenter supported retaining the EQCF requirement because it would provide a structured, independent, outside

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source/rulemaking/docket046/pcaob-board-letter-to-sec-regarding-rule-filing-2024-02.pdf?sfvrsn=cd8cde04_1; *Staff Guidance – Insights for Firms, QC 1000: A Firm's System of Quality Control* (Sept. 15, 2025), *available at* https://assets.pcaobus.org/pcaob-dev/docs/default-source/standards/documents/qc-1000---implementation-guidance-revised-9-15-2025.pdf?sfvrsn=9af42ad4_2.

49 See letters from BDO; CAQ; Crowe; Deloitte; EY; GT; PICPA; PwC; and RSM.

50 *See* letters from Crowe; EY; GT; and RSM.

51 *See* letter from TXCPA.

52 *See* letters from CAQ and Deloitte.

53 *See* letters from CAQ and Crowe.

54 *See* letters from Deloitte; EY; GT; and PwC.

55 *See* letters from Deloitte and PwC.

56 *See* letter from CII.

57 *See* letter from CII 2026.

perspective on the design and operation of the firm's system of quality management that firms have historically lacked.[58]

Based on our implementation support efforts and outreach discussions, we understand that implementing this requirement has proven more difficult and more costly than originally anticipated. We are concerned that the benefits of the requirement may not justify the costs, except potentially for the largest U.S. global network firms.

For that reason, we are proposing to rescind the EQCF requirement. We believe that rescinding the EQCF requirement may give firms greater flexibility to tailor their governance structure, including the involvement of independent voices and the extent of their responsibilities and authority, to the size, nature, and circumstances of the firm. The quality objectives for the governance and leadership component continue to call for (i) firm leadership to communicate and promote the firm's commitment to quality, (ii) the firm to clearly define leadership's responsibility for quality and hold them accountable, (iii) firm leadership to demonstrate a commitment to quality through actions and behaviors, (iv) the firm's strategic decisions and actions to be consistent with and support the firm's commitment to quality, and (v) resources to be obtained, developed, allocated, and assigned in a manner that enables an effective QC system and the performance of compliant engagements.[59] To achieve these objectives, firms are required to design and implement quality responses that are based on the related quality risks and the reasons for the assessments given to the quality risks. We have observed that some firms already incorporate independent oversight into their organizational and governance structure and they may continue to do so as part of their response to the quality risks associated with these quality objectives.

We have considered and are soliciting comment regarding alternatives to rescinding the EQCF requirement. We have considered retaining the EQCF requirement for only those firms that issue audit reports for more than 500 issuers in the prior calendar year. We considered this approach because these firms currently audit companies that make up approximately 98% of U.S. public market capitalization,[60] and they have a relatively large revenue base from issuer audits that could more easily support the incremental cost of an EQCF. Retaining the EQCF requirement for this population, therefore, may generate benefits to investors that justify the associated costs.

In addition, we have considered and are soliciting comment regarding the potential to amend the requirement for an independent oversight function to revert to the description initially proposed:

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[58] *See* letter from CPA Club.

[59] *See* QC 1000.25.

[60] S&P Global Market Intelligence as of December 31, 2025.

If the firm issued audit reports with respect to more than 100 issuers during the prior calendar year, the firm's governance structure should incorporate an oversight function for the audit practice that includes at least one person who is not a partner, shareholder, member, other principal, or employee of the firm and does not otherwise have a commercial, familial, or other relationship with the firm that would interfere with the exercise of independent judgment with regard to matters related to the QC system.

We believe by eliminating the prescriptive responsibilities of the EQCF regarding evaluation of significant judgments and related conclusions, this approach could potentially preserve many of the expected benefits of the EQCF requirement while providing greater flexibility, thereby potentially mitigating commenter concerns about costs and implementation challenges.

Questions

8. Are there additional costs and benefits of the proposed removal of the EQCF requirement that should be considered?

9. Would the alternative approach of retaining the EQCF requirement only for firms that issued audit reports with respect to more than 500 issuers during the prior calendar year be appropriate? Why or why not?

10. Is there an alternative threshold that would be appropriate? If so, what is that threshold and why would it be appropriate?

11. Would the alternative approach of adopting the requirement for an independent oversight function in the form initially proposed be appropriate? Why or why not?

12. Are there other mechanisms that provide an independent oversight function that should be considered? If so, what are they, and what are their associated costs and benefits?

D. Information and Communication

.53 The *quality objectives* established by the firm with respect to information and communication should include the following:

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e. If a firm communicates firm-level or *engagement*-level information with respect to the firm's audit practice, *firm personnel*, or *engagements*, such as firm or *engagement* metrics, to external parties, such information is accurate and not misleading and, with respect to any such metrics that are communicated in writing and made publicly available by the firm, the communication provides an

explanation~~explains~~ in reasonable detail of how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.

Note: The communication may provide an explanation either within the communication itself or by referring to a publicly available explanation presented elsewhere, such as the firm's website.

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QC 1000 requires a firm to establish a quality objective that if the firm communicates firm-level or engagement-level information with respect to the firm's audit practice, firm personnel, or engagements, such as firm or engagement metrics, to external parties, such information is accurate and not misleading and, with respect to any such metrics that are communicated in writing, the communication explains in reasonable detail how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.

As discussed in the QC 1000 adopting release, the information that this requirement applies to includes public communications about firm-level or engagement-level information, such as firm metrics and financial data. For example, some firms publish transparency or audit quality reports, either voluntarily or in response to the requirements of other jurisdictions, that contain data such as:

- Revenue breakdown by service line, by year, or by geographic segment;
- Professional staff ratios;
- Staff turnover ratios;
- Average training hours per professional; and
- Partner workload.

Firms may also communicate such data via webpages or other media, such as promotional publications, social media, interviews, or presentations via webcast or video.[61]

In connection with providing implementation support efforts, we received several questions on the scope of the requirement under QC 1000.53e. Some firms have expressed

[61] *See* PCAOB Rel. No. 2024-005, at 187.

concerns about the breadth of communications that the quality objective would apply to, highlighting the large number of metrics that firms communicate publicly or nonpublicly to external parties. Some firms also questioned the appropriateness of the requirement as it applies to nonpublic communications.

Based on the input received, we are proposing an amendment to narrow the requirement of QC 1000.53e regarding the need for an explanation of written metrics to those metrics that the firm makes publicly available. We believe that recipients of nonpublic communications regarding metrics, such as regulators, company management, and audit committees, are generally in a position to request additional information about the metrics if they desire it. Further, some nonpublic metrics may already be calculated in accordance with a method prescribed by the recipient (for example, in response to a regulatory requirement or as part of an audit committee request for proposal). In contrast, where metrics are publicly available, such as in firm transparency reports or promotional publications, these are usually one-way communications in which the external parties do not have the ability to ask questions or request clarification from the firm.

We believe that the proposed amendment could achieve our regulatory goal at lower cost. It stops short of requiring firms to incur the costs associated with making additional disclosures to recipients who can request more information if they need it, while still ensuring that recipients of public communications have access to an explanation of the metrics that have been provided.

In addition, we are proposing to add a note to paragraph .53e stating that the explanation of the method for determining metrics can be provided either within the public written communication that includes the metrics or by referring in the communication to a publicly available explanation presented elsewhere, such as the firm's website. If a firm elects to provide the explanation by referring to a publicly available explanation presented elsewhere, the firm would need to ensure that the explanation remains accurate and publicly available for as long as the firm continues to make the public written communication referring to it available. Given the volume of information that a firm might communicate about itself, and the possibility that the same information may be repeated through various communication platforms, we believe that permitting a firm to make reference to a single publicly available explanation could reduce unnecessary duplication of disclosures. We believe that providing a reference to where the explanation can be found in the same public written communication as the metric would preserve the importance of the explanation to the intended audience and their ability to easily access additional information if desired, and would not adversely impact the quality of information that firms make public about themselves.

During our implementation support efforts, some firms expressed uncertainty regarding which information would qualify as a metric subject to the requirement. We intend for the proposed requirement to apply only to calculated measures, not to underlying data. For

example, if a firm publicly discloses its auditor-employee headcount for a region or office, the firm would not need to describe how it counted the employees. The proposed requirement would apply, however, to any calculated figures derived using that data, such as the average years of experience for audit personnel (i.e., total years of audit experience divided by auditor-employee headcount).

Questions

13. Are the proposed amendments to paragraph .53e sufficiently clear and appropriate? If not, why not?

14. Would allowing firms to provide an explanation of metrics on their website adversely affect the utility and comprehensibility of metrics made public for investors and other users? If so, how?

E. Monitoring and Remediation Process

1. Evaluating whether similar engagement deficiencies exist

.68 When an *engagement deficiency* exists, the firm should:

a. For *engagement deficiencies* relating to in-process *engagements*, take action to address the deficiency in accordance with *applicable professional and legal requirements* (to the extent necessary, before the issuance of the related *engagement* report(s)), such that the *engagement* ~~report(s) are~~ is free of significant engagement deficiencies~~appropriate in the circumstances~~;[40A]

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d. For *engagement deficiencies* that resulted or could result in (i) a failure to obtain sufficient appropriate evidence to support the conclusion reached on an *engagement* or (ii) an inappropriate overall conclusion on the subject matter of an *engagement*, ~~E~~evaluate whether similar *engagement deficiencies* exist on:

(1) Other in-process *engagements*, or would arise if remedial action is not taken;

(2) Other completed *engagements*, unless it is probable that the *engagement* report(s) are not being relied upon; and

(3) Work performed by the firm on other firms' *engagements*;

and if so, take actions described in paragraphs .68a.-c. above, as applicable.

[40A] A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence or failed to perform interim review or attestation procedures necessary in the circumstances in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the *engagement*, (3) the *engagement* report is not appropriate in the circumstances, or (4) the firm is not independent of its client. This concept aligns with "significant engagement deficiency" in AS 1220, *Engagement Quality Review* (*see* Notes to AS 1220.12, .17, .18B), but applies to all *engagements* as defined in this standard.

QC 1000 requires that, when the firm determines that an engagement deficiency exists, the firm should evaluate whether similar engagement deficiencies exist in other in-process engagements, completed engagements (unless it is probable that the engagement report is not being relied upon), and work performed on other firms' engagements, and if so, take actions as required by paragraphs .68a-c, as applicable. As defined in the standard, an engagement deficiency is an instance of noncompliance with applicable professional or legal requirements by the firm, firm personnel, or other participants with respect to an engagement of the firm, or by the firm or firm personnel with respect to an engagement of another firm.[62]

Some commenters said that the requirement in paragraph .68d could be complex, highly subjective, challenging, and costly to implement, and is somewhat duplicative of the more principles-based requirements for firms to perform monitoring of in-process and completed engagements using a risk-based approach.[63] One commenter said that the requirement to evaluate for similar engagement deficiencies could lead to various unintended consequences and costs that do not benefit audit quality, though it did not provide specific examples.[64] In connection with our implementation support efforts, some firms suggested that the requirement to evaluate whether similar engagement deficiencies exist on other engagements should apply only for engagement deficiencies related to an unsupported opinion.

Given this feedback, we are proposing to limit the requirement to evaluate whether similar engagement deficiencies exist so it applies only with respect to those engagement deficiencies that resulted or could result in (i) a failure to obtain sufficient appropriate evidence

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62 QC 1000.A4.

63 *See* letters from EY and KPMG.

64 *See* letter from EY.

to support the conclusion reached on an engagement[65] or (ii) an inappropriate overall conclusion on the subject matter of an engagement.

The proposed amendment in clause (i) would not require that the engagement deficiency actually resulted in a failure to obtain sufficient appropriate evidence to support the conclusion on the engagement in which the engagement deficiency was identified. This would depend in part on the materiality to that specific engagement of the matter where the engagement deficiency arose. Rather, it would apply to engagement deficiencies that resulted or could result in a failure to obtain sufficient appropriate evidence. This approach is intended to focus effort in areas where there is a risk that engagement teams have not performed the work necessary to support the conclusion reached on an engagement.

Consider, for example, an audit engagement selected by the firm for monitoring that had an engagement deficiency related to the engagement team's failure to perform confirmation procedures for cash and cash equivalents held by third parties, as required by AS 2310, *The Auditor's Use of Confirmation*.[66] On this particular audit engagement, cash was not a significant account as it fell below the engagement's materiality threshold. Consequently, the team's failure to perform the required procedures did not result in a failure to obtain sufficient appropriate audit evidence in that engagement. In determining whether this engagement deficiency is subject to the requirements of paragraph .68d, the firm would need to determine whether a similar engagement deficiency (i.e., failure to perform cash confirmation procedures) resulted or could result in a failure to obtain sufficient appropriate evidence on another engagement of the firm (for example, where cash may be a significant account). If so, the firm would be required to take actions required by subparagraphs a-c of paragraph .68.

The concept of "an inappropriate overall conclusion on the subject matter of an engagement" reflected in clause (ii) aligns with one of the examples of a significant engagement deficiency in AS 1220, *Engagement Quality Review,* which requires that "an engagement quality reviewer may provide concurring approval of issuance only if . . . he or she is not aware of a significant engagement deficiency."[67] In an audit, for example, issuing an unqualified opinion when a qualified opinion was warranted would constitute an inappropriate conclusion on the subject matter of an engagement. In proposing AS 1220, the Board provided two other examples: failure to appropriately modify the engagement conclusion in response to (1) a

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[65] Because QC 1000 covers not only audit engagements but also review engagements and attestation engagements, reference to "sufficient appropriate evidence" is necessary as this concept aligns with the audit, review, and attestation standards.

[66] *See* AS 2310.24.

[67] Notes to AS 1220.12, .17, .18B.

material departure from generally accepted accounting principles or (2) a material weakness in internal control over financial reporting ("ICFR").[68]

We believe this approach could provide a more risk-based framework for evaluating whether similar engagement deficiencies exist, reducing compliance costs and sharpening the focus on the deficiencies that most directly threaten audit quality. Engagement deficiencies that would not be covered by an amended paragraph .68d, if adopted, would include, for example, not making required communications to the audit committee or failing to timely file Form AP, *Auditor Reporting of Certain Audit Participants*. These types of engagement deficiencies would still be required to be addressed in accordance with subparagraphs a-c of paragraph .68 and to be evaluated to determine whether QC deficiencies exist in accordance with paragraph .72.

Relatedly, we are also proposing to amend paragraph .68a and replace the language "the engagement report(s) are appropriate in the circumstances" with "the engagement is free of significant engagement deficiencies." The concept of a significant engagement deficiency is derived from AS 1220. As noted above, under that standard, an engagement quality reviewer ("EQR") is permitted to provide concurring approval of issuance only if, after performing with due professional care the review required by the standard, the EQR is not aware of a significant engagement deficiency.[69] We are proposing to add a footnote that describes what significant engagement deficiencies are and to clarify that the concept applies in this context with respect to all engagements (e.g., including engagements performed pursuant to the PCAOB's interim attestation standards), not only the types described in AS 1220. The proposed amendment to paragraph .68a would focus firms on matters that must be corrected before an audit report is issued or before an engagement conclusion is communicated to the company.[70]

2. Definition of QC deficiency

.A8 QC deficiency – A *QC observation* that, based on the evaluation under paragraph .72, individually, or in combination with one or more other *QC observations*, evidences:

(1) That the likelihood of the firm not achieving the reasonable assurance objective or one or more *quality objectives* has not been reduced to an acceptably low level;

Note: The likelihood of not achieving the reasonable assurance objective or one or more *quality objectives* would be above an acceptably low level if, for example, a *quality objective* is not established, a *quality risk* is not properly identified or

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68 *See Proposed Auditing Standard—Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards*, PCAOB Rel. No. 2008-002 (Feb. 26, 2008), at 16.

69 Notes to AS 1220.12, .17, .18B.

70 *Cf.* PCAOB Rel. No. 2008-002, at 16 (describing significant engagement deficiencies).

assessed, or a *quality response* is not properly designed or implemented or is not operating effectively and other *quality responses* do not achieve the relevant objective(s).

(2) Noncompliance with requirements of this standard, other than those under "Documentation"; or

(3) Noncompliance with requirements of this standard under "Documentation" that adversely affects the firm's ability to comply with any of the other requirements of this standard.

A commenter,[71] and in connection with providing implementation support efforts some firms, expressed concern that differences between the definition of "QC deficiency" in QC 1000 and analogous terms in other quality management standards create significant operational and communication challenges and that without a consistent definition, quality control policies and procedures may become unclear and inconsistent. In particular, through our implementation support efforts, a few firms questioned the reason for the differences in the consideration of compensating responses in QC 1000 from other quality management standards. These firms questioned whether the Note to paragraph .A8(1) should be read as referring to a single quality response being "not properly designed or implemented or not operating effectively" even if the firm had other quality responses to the same quality risk that, in combination, reduced to an appropriately low level the risk that a quality objective would not be achieved.

After considering concerns raised, we are proposing to amend the definition of "QC deficiency" to clarify that a failure of a quality response would be regarded as evidencing a QC deficiency only if other quality responses do not achieve the relevant objective(s). This will make clear that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses into account when determining whether a QC deficiency exists, and no QC deficiency would arise if the other quality responses were effective in achieving the relevant objective(s).

Questions

15. Are the proposed amendments to paragraphs .68a and .68d sufficiently clear and appropriate? Why or why not?

16. What, if any, additional direction is needed regarding paragraph .68d?

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[71] *See* letters from GT and GT 2026.

17. Would the proposed amendments to .68d reduce the complexity, subjectivity, or costs associated with evaluating engagement deficiencies across other engagements? Please explain.

18. Are the proposed amendments to the definition of QC deficiency to take into account other quality responses (e.g., compensating responses) appropriate and clear? Why or why not?

F. Evaluation of and Reporting on the QC System

1. Annual evaluation of the QC system

.77 Once a firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months~~Annually~~, the firm must annually evaluate the effectiveness of its QC system, based on the results of its monitoring and remediation activities, and conclude, as of ~~September 30 (~~the ~~"~~*evaluation date*,[44]~~"),~~ that its QC system:

a. Is effective in achieving the reasonable assurance objective~~with no unremediated *QC deficiencies*~~; or

Note: The firm's QC system is effective in achieving the reasonable assurance objective under paragraph .77a if, as of the *evaluation date*, there are no unremediated *QC deficiencies* other than those that, individually or in combination, are not severe.

b. Is effective in achieving the reasonable assurance objective except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~ that are not *major QC deficiencies*~~; or

c. Is not effective in achieving the reasonable assurance objective~~(one or more *major QC deficiencies* exists)~~.

Note: An unremediated *QC deficiency* is one for which remedial actions that completely address the *QC deficiency* have not been fully implemented, tested, and found effective. For this purpose, implementation must be completed as of the *evaluation date* and testing and the determination of effectiveness must be completed no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed).

[44] The selection of the firm's *evaluation date* may be influenced by the nature and circumstances of the firm and its *engagements*, including, for example, the firm's fiscal year-end or

the timing of monitoring activities. If the firm changes its *evaluation date*, the firm is required to provide notice of such change on Form QC.

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.A4A Evaluation date – The date selected by the firm as of which to evaluate its QC system under paragraph .77.

a. Evaluation date

QC 1000 requires that the firm perform an evaluation of the effectiveness of its QC system annually and as of September 30.

Some commenters suggested that firms be permitted to select their own evaluation date.[72] Staff have also learned through commenters[73] and implementation support efforts that some firms are experiencing challenges implementing the fixed evaluation date of September 30. One commenter explained that some firms have adopted a different evaluation date under ISQM 1 for operational and regulatory reasons, particularly due to the requirement to issue transparency reports within a fixed timeframe after fiscal year-end,[74] and that QC 1000 will cause increased costs and implementation challenges, including some firms being required to have multiple evaluation dates.[75] Another commenter said that allowing firms to choose their own date would enable firms to choose the most relevant date based on their unique business considerations, avoiding the cost and complexity of completing two separate annual evaluations at different times of the year.[76] Another commenter said that the fixed annual evaluation date of September 30 does not give adequate time to complete the majority of the calendar-year-end inspections typically conducted during an inspection cycle, perform root cause episodic and systemic analyses to identify QC deficiencies, design and implement remedial responses, and monitor the effectiveness of those actions all prior to September 30.[77] Another commenter stated that the fixed timeline does not take into account a firm's fiscal

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72 *See* letters from BDO; CAQ; CPA Club; Crowe; Deloitte; EY; and RSM.

73 *See* letters from BDO; EY; and GT.

74 *See* Article 13, paragraph 1, of Regulation (EU) 537/2014, *available at* https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2014:158:FULL#page=79 (requiring audit firms that carry out statutory audits of public interest entities to make public an annual transparency report "at the latest four months after the end of each financial year").

75 *See* letter from Deloitte.

76 *See* letter from EY.

77 *See* letter from BDO.

year-end, the normal cadence of its QC system, or existing processes aligned with prevailing business practices and regulatory standards.[78] This commenter further stated that, for instance, the fixed dates do not coincide with the firm's established internal and external inspection cycles, including peer review (when applicable), which serve as a critical input to the overall evaluation of the QC system.

We are proposing to amend QC 1000 to permit firms to select their own annual evaluation date for their QC system by adding a new defined term, "evaluation date," defined as the date selected by the firm as of which to evaluate its QC system under paragraph .77, and making conforming changes to paragraph .77.[79]

The choice of evaluation date is an aspect of QC system design and, as such, would have to have been made and documented when the firm becomes subject to the QC 1000.06 requirement to design, implement, and operate an effective QC system in compliance with this standard.

We are also proposing to include language in a new footnote to guide the firm's selection of evaluation date by recognizing that the firm's choice may be influenced by the nature and circumstances of the firm and its engagements, including, for example, the firm's fiscal year-end or the timing of monitoring activities. The firm has to have the information needed to reach a conclusion about the effectiveness of its QC system and to identify unremediated QC deficiencies as of the evaluation date, and for the individuals with ultimate responsibility and accountability and operational responsibility and accountability for the QC system as a whole, acting with due professional care, to certify the firm's report to the PCAOB on its annual evaluation of the QC system. This suggests that the evaluation date and the firm's monitoring and remediation cycle ought to be coordinated so that sufficient, timely information is available when needed about the implementation and operation of the QC system (including the status of remediation efforts) and the compliance of the firm's engagements with applicable professional and legal requirements. Because of the relationship between the evaluation date and the firm's monitoring and remediation activities, we do not anticipate that firms will change their selected evaluation date without a specific reason (e.g., regulatory requirements, business combination transactions, changes in fiscal year or business cycles).

We believe allowing each firm to select its evaluation date based on the particular facts and circumstances of the firm would be responsive to the implementation challenges experienced by some firms and, in particular, could reduce the burden and costs of multiple annual evaluations that some firms could have experienced due to having different required evaluation dates for their QC system under QC 1000 and other regulations to which they are

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[78] *See* letter from GT.

[79] *See* proposed QC 1000.06, .07b, and .53g in Appendix 1. *See also* proposed amendments to General Instructions 3 and 4 and Item 3.2 of Form QC in Appendix 2.

subject. It would also better align with the flexibility provided by other quality management standards, which permit firms to choose their own evaluation date. Additionally, we do not believe that allowing firms to select their own evaluation date would impair our ability to carry out our inspection program.

b. Obligation to evaluate the effectiveness of the firm's QC system

We are proposing to add language to paragraph .77 that would delay the point at which a firm is first required to evaluate its QC system. Under this proposed amendment, a firm would be required to evaluate its QC system once the firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months (whether due to the effectiveness of QC 1000 on December 15, 2026, or to the firm's later becoming subject to the requirements of QC 1000.06). We believe this new provision may be necessary, in a context where firms are choosing their own evaluation dates, to ensure that firms are not required to perform an evaluation of the QC system until the system has been operating long enough to provide sufficient information to support the evaluation.

For example, under the proposed amendments, if a firm that is subject to the requirements of QC 1000.06 when the standard becomes effective (i.e., on December 15, 2026) selects June 30 as its evaluation date, the firm would first evaluate the effectiveness of its QC system in accordance with QC 1000 as of June 30, 2027. Alternatively, if such a firm selects March 31 as its evaluation date, the firm would be required to first evaluate the effectiveness of its QC system as of March 31, 2028. As another example, if a firm first became subject to the requirements of QC 1000.06 because the firm becomes subject to applicable professional and legal requirements with respect to an engagement on June 1, 2027, and the firm selects July 31 as its evaluation date, the firm would be required to first evaluate the effectiveness of its QC system as of July 31, 2028.

c. Evaluation conclusions

QC 1000 requires the firm to evaluate annually and conclude that its QC system is effective, is effective except for one or more unremediated QC deficiencies that are not major QC deficiencies, or is not effective (i.e., one or more major QC deficiencies exists).

Some commenters[80] to the SEC and feedback received during our implementation support efforts raised issues with the evaluation framework under QC 1000 and suggested that we conform the evaluation framework with that of ISQM 1, in order to avoid differing conclusions under each standard. Although QC 1000 does not require firms to publicly disclose their evaluation conclusions and Form QC is not public, commenters have indicated that certain jurisdictions require firms to publicly provide the conclusion on the effectiveness of their QC

[80] *See* letters from Baker Tilly; CAQ; Deloitte; EY; and GT.

system.[81] During our implementation support efforts, some firms stated that without providing their QC 1000 conclusion in addition to their conclusion under another quality management standard (e.g., ISQM 1), the disclosure could be considered misleading. Through our implementation support efforts, firms also repeatedly expressed concerns that differing conclusions could create comparability and clarity issues across jurisdictions, and could cause stakeholders to potentially misunderstand whether differences in reported conclusions reflect substantive differences in the effectiveness of the firm's QC system.

In response to this feedback and in an effort to align QC 1000 more closely with other quality management frameworks, such as ISQM 1, we are proposing to amend the conclusions related to the evaluation of effectiveness of the firm's QC system. Under proposed paragraph .77, the firm would be required to conclude, as of the evaluation date, that its QC system:

- Is effective in achieving the reasonable assurance objective; or
- Is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective); or
- Is not effective in achieving the reasonable assurance objective.

Our proposed evaluation conclusions are based on and generally align with the ISQM 1 conclusions.

To clarify when a firm may conclude that its QC system is effective in achieving the reasonable assurance objective under paragraph .77a, we are proposing to include a note explaining that such a conclusion would be appropriate when, as of the evaluation date, there are no unremediated QC deficiencies other than those that, individually or in combination, are not severe. This clarification is intended to emphasize that the presence of unremediated QC deficiencies does not, in all cases, preclude a conclusion that the QC system is effective. Rather, the determination depends on the severity of those deficiencies and their effect on the firm's ability to achieve the reasonable assurance objective. Under the proposed approach, QC deficiencies that are not severe, whether considered individually or in combination, would not indicate that the QC system is failing to operate effectively, which is consistent with the ISQM 1 evaluation framework and with the reasonable assurance objective of QC 1000.

A firm would conclude under proposed paragraph .77b if its QC system was effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective). The parenthetical statement is

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[81] *See* letters from CAQ and Deloitte.

intended to avoid potential ambiguity by clarifying that if QC deficiencies are so severe as to prevent the firm from achieving the reasonable assurance objective, the appropriate conclusion would be under proposed paragraph .77c. A firm would conclude under paragraph .77c if its QC system was not effective in achieving the reasonable assurance objective.

Under our proposal, QC 1000 would continue to specify that an unremediated QC deficiency is one for which remedial actions that completely address the QC deficiency have not been fully implemented, tested, and found effective. We believe that this degree of precision is appropriate to avoid inconsistent and overly subjective interpretation of what counts as remediation. However, some firms have described, through comment letters[82] and during our implementation support efforts, time-constraint challenges related to testing the operating effectiveness of remedial actions by the evaluation date. We recognize that some remedial actions may need to operate for a period of time before their operating effectiveness can be tested. Therefore, we are also proposing to modify an existing note to paragraph .77 to explain that, while remedial actions must be fully implemented as of the evaluation date, they can be tested and found effective no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed). The note distinguishes between the implementation of remedial actions and the demonstration of their effectiveness. For purposes of determining whether a QC deficiency is remediated, firms are expected to have fully implemented remedial actions as of the evaluation date, but the assessment of whether those actions are operating effectively may be supported by evidence obtained from testing after the evaluation date but before the Form QC filing date.

d. Evaluating the severity and pervasiveness of unremediated QC deficiencies

.78 In performing the evaluation and reaching the conclusion required by paragraph .77, the firm should evaluate the severity (i.e., the seriousness, including potential impact on the firm's ability to achieve the reasonable assurance objective) and the pervasiveness (i.e., the breadth of impact on the firm's QC system or across the firm's portfolio of *engagements*) of all unremediated *QC deficiencies*, individually and in combination, considering both quantitative and qualitative implications. In evaluating severity and pervasiveness, the firm should consider the following factors: ~~As of the *evaluation date*, the firm must evaluate unremediated *QC deficiencies* to determine whether *major QC deficiencies* exist. The firm's determination should be based on whether either of the presumptions described in paragraph .78a. arises and, when relevant, the factors listed in paragraph .78b.~~

~~a. A *major QC deficiency* would be presumed to exist if there is an unremediated *QC deficiency* or combination of unremediated *QC deficiencies* that:~~

[82] *See* letters from BDO and EY.

~~(1) Relates to the firm's governance and leadership that affect the overall environment supporting the operation of the QC system; or~~

~~(2) Results in or is likely to result in one or more significant engagement deficiencies[44] in *engagements* that, taken together, are significant in relation to the firm's total portfolio of *engagements* (for example, because of the number of *engagements* or *firm personnel* affected or likely to be affected, the associated revenue or profit, the associated risks, or the relevant industry).~~

~~Note: A firm may rebut the presumption that a *major QC deficiency* exists only if the firm demonstrates, taking into account both factors listed in paragraph .78b. (including all of the listed examples in paragraph .78b.(1)), that the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* does not constitute a *major QC deficiency*.~~

~~b. The following factors are relevant (i) in rebutting a presumption under paragraph .78a., and (ii) for unremediated *QC deficiencies* that do not give rise to a presumption under paragraph .78a., in determining whether a *major QC deficiency* exists:~~

~~(1) The severity and pervasiveness of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies*, which may be evidenced by, for example:~~

~~(~~a.~~)~~ The number and nature of components or *quality objectives* directly or indirectly affected;

~~(~~b.~~)~~ The extent to which the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* relates to a component, *quality objective*, or *quality response* that affects the design or operation of other aspects of the QC system;

~~(~~c.~~)~~ The number and pervasiveness of root causes;

~~(~~d.~~)~~ The persistence of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* over time;

e. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in significant engagement deficiencies;

f. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in the need for revisions to *engagement* reports, or is or could be associated with restatements of financial statements or

reissuances of company-prepared reports that are the subject of audit or attestation *engagements*;[44A]

~~(e)~~g. With respect to the factors in subparagraphs d.-f., ~~T~~the number and significance (to the firm's portfolio of *engagements*) of *engagements* that are affected by the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* or are likely to be affected in the future in the absence of remediation, and the nature of the effect ~~if the *QC deficiencies* are not remediated~~; and

~~(f) The number of *engagements* that may have unsupported opinions unless additional procedures are performed; and~~

~~(g) The number of *engagements* for which the firm revised and reissued its *engagement* report(s) because, after additional procedures were performed, the financial statements or management's report on internal control over financial reporting was restated or revised; and~~

~~Note: In evaluating each unremediated *QC deficiency* or combination of unremediated *QC deficiencies,* the firm would consider both quantitative and qualitative implications.~~

~~(2)~~h. The ~~extent~~effects of ~~to which~~any remedial actions that have been implemented, tested, and found to be effective.

~~[44] A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB or failed to perform interim review or attestation procedures necessary in the circumstances, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client. *See, e.g.*, Notes to AS 1220.12, .17, .18B.~~

[44A] Company-prepared reports subject to audit or attestation *engagements* include the report on internal control over financial reporting and broker-dealer compliance and exemption reports.

To enhance alignment with other quality management standards, we are proposing to eliminate the concept of a "major QC deficiency," including the associated presumptions. However, we are proposing to retain, in modified form, the examples relevant to determining whether a major QC deficiency exists as factors to consider in evaluating the severity and pervasiveness of unremediated QC deficiencies.

We are proposing to amend paragraph .78 to require firms to evaluate the severity and pervasiveness of unremediated QC deficiencies in reaching the evaluation conclusion under

paragraph .77. Proposed paragraph .78 would clarify that the firm's evaluation would consider all unremediated QC deficiencies individually and in combination, considering both quantitative and qualitative implications. It includes descriptions to clarify the meaning of severity and pervasiveness for purposes of this evaluation: Severity reflects the seriousness of a QC deficiency or combination of QC deficiencies, including its potential impact on the firm's ability to achieve the reasonable assurance objective, while pervasiveness reflects the breadth of impact of the QC deficiency or combination of QC deficiencies on the QC system or across the firm's portfolio of engagements.

In evaluating severity and pervasiveness, the firm would be required to consider the factors in paragraphs .78a-h. We believe that these factors could promote consistency by identifying situations that are particularly relevant in assessing the seriousness and breadth of unremediated QC deficiencies.

a. *The number and nature of components or quality objectives directly or indirectly affected*

This factor focuses on how many components or quality objectives of the QC system are affected, what they are, and whether the impact is direct or spread through other components or quality objectives.

b. *The extent to which the unremediated QC deficiency or combination of unremediated QC deficiencies relates to a component, quality objective, or quality response that affects the design or operation of other aspects of the QC system*

This factor focuses on how widespread the impact of the unremediated QC deficiency or combination of unremediated QC deficiencies is throughout the QC system.

c. *The number and pervasiveness of root causes*

This factor focuses on what the firm's root cause analysis reveals about why the QC deficiency occurred and how significantly or broadly it affects the QC system.

d. *The persistence of the unremediated QC deficiency or combination of unremediated QC deficiencies over time*

This factor focuses on the existence of a QC deficiency or deficiencies that recur or continue unremediated year over year.

e. *Whether the unremediated QC deficiency or combination of unremediated QC deficiencies has resulted or could result in significant engagement deficiencies*

This factor focuses on whether the unremediated QC deficiency or combination of unremediated QC deficiencies is leading to or likely to lead to significant engagement deficiencies.

f. *Whether the unremediated QC deficiency or combination of unremediated QC deficiencies has resulted or could result in the need for revisions to engagement reports, or is or could be associated with restatements of financial statements or reissuances of company-prepared reports that are the subject of audit or attestation engagements*[83]

This factor focuses on whether the unremediated QC deficiency or combination of unremediated QC deficiencies has already led or could lead, to revisions of engagement reports, or is or could be associated with financial statement restatements or reissuances of management reports on internal control over financial reporting or broker-dealer compliance or exemption reports.

g. *With respect to the factors in subparagraphs d.-f., the number and significance (to the firm's portfolio of engagements) of engagements that are affected by the unremediated QC deficiency or combination of unremediated QC deficiencies or are likely to be affected in the future in the absence of remediation, and the nature of the effect*

This factor focuses on how important the affected engagements are compared to the firm's overall practice under PCAOB standards.

The number and significance of affected engagements to the firm's portfolio of engagements depends on, for example, firm personnel affected or likely to be affected, the associated revenue or profit, the associated risks, and the relevant industry.

h. *The effects of any remedial actions that have been implemented, tested, and found to be effective*

Before the annual evaluation date, a firm may implement remedial actions that may reduce the severity or pervasiveness of an unremediated QC deficiency while not completely addressing it. These remedial actions would need to be implemented as of the evaluation date, and tested and found to be effective before Form QC is due and filed for a firm to take credit for them in this context. For example, in response to a QC deficiency related to a problem identified with the firm's audit software, a firm designs and implements five remedial actions as of the evaluation date. Of those five remedial actions, two remedial actions have been tested and found to be effective before Form QC is due and filed. When determining the severity and

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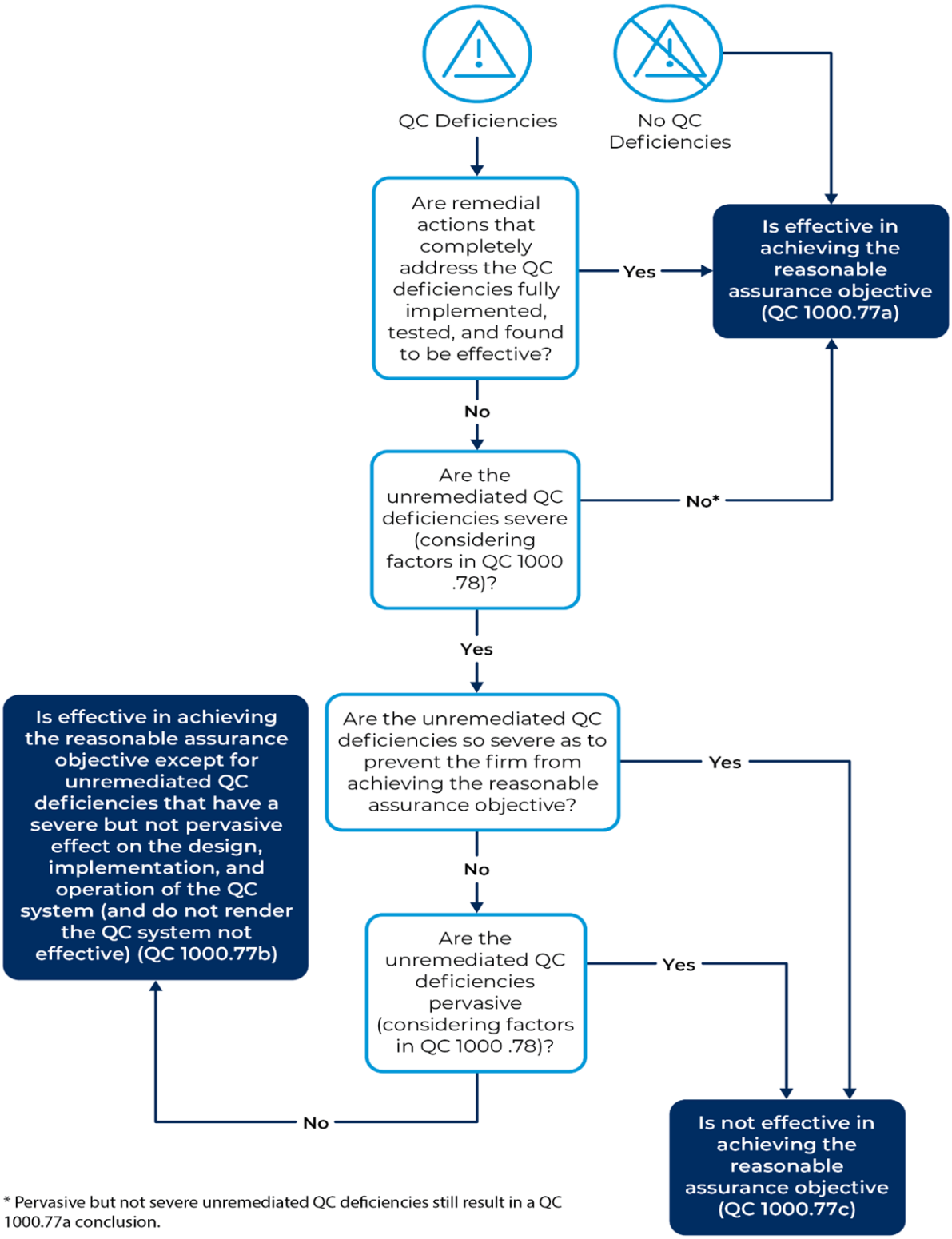
[83] Company-prepared reports subject to audit or attestation engagements include the report on internal control over financial reporting and broker-dealer compliance and exemption reports.

pervasiveness of an unremedied QC deficiency, the firm can consider the effects of the two remedial actions that have been tested and found to be effective.

We note that, despite increased alignment between the evaluation conclusions under QC 1000 and other quality management standards, the possibility remains that firms may reach different conclusions regarding the effectiveness of their QC system under QC 1000 and ISQM 1 or SQMS 1. Even if we adopted ISQM 1 wholesale, this could occur. For example, there are differences in the professional and legal requirements that apply to practice under PCAOB standards compared to other standards, including variations between applicable auditing standards and independence requirements. In addition, the relevant populations of engagements are different. There could also be differences relating to the individuals who perform such engagements or perform activities within the QC system, including with regard to training and supervision. In addition, QC 1000, as we propose to amend it, would continue to require a more structured approach to the evaluation process than other standards, including through the application of specific defined terms and factors that are required to be considered. We believe this more structured approach is important both in supporting consistent and appropriate evaluation of the QC system by firms and in providing a foundation for PCAOB oversight in the future.

The process flow below illustrates how to apply the above considerations in reaching one of the three evaluation conclusions in paragraph .77.

Annual Evaluation of the QC System



* Pervasive but not severe unremediated QC deficiencies still result in a QC 1000.77a conclusion.

e. Alternative evaluation conclusion considered

In developing the proposed amendments, we also considered an alternative evaluation framework under which a firm would be required to reach a binary conclusion (i.e., that its QC system is either effective or not effective in achieving the reasonable assurance objective). Under this approach, the evaluation would not include a separate category for the conclusion that the firm's QC system is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system. Under this alternative, binary approach, the concept of a major QC deficiency would also be removed from the standard.

Under a binary framework, we believe firms would still need a structure for evaluating identified QC deficiencies and determining whether those deficiencies result in a conclusion that the QC system is not effective. For this reason, we believe it would be important to preserve the factors from paragraph .78b as adopted, which would continue to inform the firm's assessment of the severity and pervasiveness of QC deficiencies and support its determination of whether the QC system achieves the reasonable assurance objective.

In considering this alternative, we took into account the IAASB staff's rationale in developing the evaluation framework in ISQM 1 (i.e., paragraph 54 of ISQM 1 provides for three possible outcomes). The IAASB staff noted the importance of ensuring that the appropriate conclusion is reached and said that a purely binary conclusion did not promote a sufficiently thoughtful consideration of the effectiveness of the QC system.[84] We likewise believe that while a binary approach may simplify the evaluation, it could reduce the rigor of the evaluation process and reduce the ability of the evaluation conclusion to convey meaningful information to the firm and the PCAOB about the nature and impact of identified QC deficiencies, particularly where QC deficiencies exist but do not rise to a level that would warrant an overall conclusion that the QC system is not effective.

2. Reporting to the PCAOB

.79 The firm must report annually to the PCAOB on Form QC, in accordance with the instructions to that form, the results of the evaluation of its QC system no~~t~~ later than 60 days after the *evaluation date*~~November 30~~.

.80 The contents of the firm's reporting to the PCAOB must include the following:

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[84] *See* paragraph 136 of Basis for Conclusions Prepared by the Staff of the IAASB, December 2020, International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), *available at* https://www.ifac.org/_flysystem/azure-private/publications/files/IAASB-ISQM-1-Basis-for-Conclusions.pdf.

a. The firm's conclusion that, as of the *evaluation date*, the firm's QC system:

(1) Is effective in achieving the reasonable assurance objective ~~with no unremediated *QC deficiencies*~~;

(2) Is effective in achieving the reasonable assurance objective, except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~that are not *major QC deficiencies*~~; or

(3) Is not effective in achieving the reasonable assurance objective~~(one or more *major QC deficiencies* exists)~~.

b. If~~,~~ ~~the firm reports a conclusion under paragraph .80a.(2) or paragraph .80a.(3)~~as of the *evaluation date*, the firm has any unremediated *QC deficiencies*, a description of each unremediated *QC deficiency*~~, including each *major QC deficiency,*~~ consisting of:

(1) The requirements of this standard or the *quality objective(s)* to which it relates;

(2) The firm's basis for determining it was a *QC deficiency* as of the *evaluation date*; and

(3) A summary of the remedial actions taken and planned to be taken to address the *QC deficiency*, as well as the timing and the status of such actions, including a summary of actions taken or to be taken by the firm to address the risk that the *QC deficiency* resulted or could result in significant engagement deficiencies~~the issuance of unsupported *engagement* reports~~.

~~c. If a *major QC deficiency* is presumed to exist but the determination was made that there is no *major QC deficiency*, the basis for such determination~~.

a. Reporting on the annual evaluation of the effectiveness of the QC system

QC 1000 provides that firms have until November 30 to report on Form QC to the PCAOB based on an evaluation date of September 30. This provides firms with 61 days after the evaluation date of September 30 to file Form QC. Based on the proposed amendment discussed above in Section III.F.1.a. to permit firms to select their own evaluation date, we are proposing to amend the due date of Form QC in paragraph .79 to, similarly, provide the firm with 60 days after its chosen evaluation date to file Form QC. We also propose to amend the Form QC

reporting rule, PCAOB Rule 2203A, *Report on the Evaluation of the Firm's System of Quality Control*, and General Instruction 3 to Form QC to reflect this proposed amendment, as reflected in Appendix 2.

We also propose to amend General Instruction 4 to Form QC to clarify the reporting period covered by the firm's evaluation, as shown in Appendix 2. As proposed, the reporting period would be the period beginning the day after the most recent previous evaluation date and ending on the evaluation date, with the following exceptions to the beginning of the reporting period:

- If a firm has not previously been required to evaluate its QC system under QC 1000, the reporting period is the period beginning on the date the firm first incurred an obligation to design, implement, and operate a QC system under QC 1000.06.

- If a firm was previously required to evaluate its QC system under QC 1000, but such obligation lapsed because the firm ceased having any obligations under applicable professional and legal requirements with respect to one or more engagements, the reporting period is the period beginning when the firm subsequently incurred an obligation to design, implement, and operate a QC system under QC 1000.06.

Under this proposed amendment, the reporting period will generally be twelve months long, but it will be longer or shorter if the obligation to design, implement, and operate the QC system arises mid-period (whether by virtue of the effective date of QC 1000 or the firm's otherwise becoming subject to the requirement to design, implement, and operate the QC system).

QC 1000 will continue to require that firms report all unremediated QC deficiencies as of the evaluation date on Form QC, regardless of the conclusion reported under paragraph .80a. Accordingly, a firm's Form QC reporting would need to include any unremediated QC deficiencies identified as of the evaluation date, including QC deficiencies that were determined not to be severe or pervasive. We continue to believe that reporting of all unremediated QC deficiencies will inform various aspects of our oversight activities. Through our implementation support efforts, several firms suggested that we align the conclusions with ISQM 1 while retaining the requirement to report unremediated QC deficiencies to the PCAOB.

Based on the proposed amendments described above in Sections III.F.1., additional conforming amendments are proposed to paragraph .80 and Form QC. We are also proposing amendments to paragraph .80 and Form QC to replace the language "the issuance of unsupported opinions" with "significant engagement deficiencies" consistent with the proposed amendment described in Section III.E.1.

b. Reporting changes to the firm's evaluation date

Under the proposed amendments to QC 1000.77, as discussed above in Section III.F.1.a., each firm would select its own evaluation date. We are proposing that any change in the evaluation date, together with a brief statement of the firm's rationale for making the change, would be reported on Form QC within 30 days after the firm's decision. We believe this information would inform the timing of our oversight efforts.

To codify this requirement, we are proposing to recaption Rule 2203A as "*Reporting on the Evaluation of the Firm's System of Quality Control,*" amend paragraph (a) of Rule 2203A to require notification of a change in the evaluation date on Form QC, and amend paragraph (b) of Rule 2203A to require such notification to be filed no later than 30 days after the firm's decision to change the evaluation date.

Relatedly, we are proposing to amend Form QC to add a new Item 1.2, *Change to the Evaluation Date*, for providing notice of a change to the evaluation date, including the new evaluation date and a brief statement of the rationale for making the change. Additional language is also proposed to be added to General Instruction 3 to explain that Form QC is required to be filed no later than 30 days after the firm's decision to change the evaluation date and that a notification of change in the evaluation date need only include a completed Part I and the signed certification in Part V of Form QC. See Appendix 2 for proposed amendments to Form QC.

Questions

19. Is permitting firms to choose their own evaluation date to conclude on the effectiveness of the QC system appropriate? Why or why not?

20. Is five months an appropriate amount of time for the firm's QC system to operate before requiring the firm to evaluate its QC system for the first time as of its selected evaluation date? If not, what length of time would be appropriate?

21. Is the proposed evaluation framework for concluding on the effectiveness of a firm's QC system, including the three proposed conclusions in paragraph .77, sufficiently clear and appropriate? Why or why not?

22. Are the factors to evaluate the severity and pervasiveness of unremediated QC deficiencies sufficiently clear and appropriate? Why or why not?

23. Is the proposed removal of "major QC deficiency" from QC 1000 appropriate? Why or why not?

24. What, if any, additional direction is needed regarding the possible conclusions on the effectiveness of the firm's QC system in paragraph .77?

25. Are the proposed conforming amendments to Rule 2203A and Form QC appropriate? Why or why not?

26. Would the alternative evaluation framework with a binary conclusion (i.e., that the QC system is either effective or not effective in achieving the reasonable assurance objective) be more appropriate for evaluating the effectiveness of the QC system? Why or why not?

27. Under the alternative evaluation framework with a binary conclusion, would it be appropriate to retain the factors in paragraph .78 as adopted? Why or why not? Are there other factors that would be helpful in determining the evaluation conclusion? If so, what are they, and how would they be helpful?

G. Documentation

.84 ~~A complete and final set of documentation as required by paragraphs .81-.83 with respect to the 12-month[48] period ended the prior September 30 and any evaluation required as of that date should be assembled for retention not later than December 14 ("QC documentation completion date").~~No later than 14 days after Form QC is filed (or due to be filed, if earlier) ("QC documentation completion date"), the firm should complete the documentation required by paragraphs .81-.83 with respect to the period covered by the firm's annual evaluation and retain it in a manner that permits timely retrieval.

~~[48] In the first year that the firm is required to evaluate its QC system under paragraph .77, the period is from the date on which the firm becomes subject to such requirement to the next September 30.~~

QC 1000 provides firms until December 14 following the firm's annual evaluation to assemble for retention a complete and final set of QC documentation.

Commenters expressed concern regarding the costs that would be incurred to meet the documentation requirements of the standard.[85] In connection with providing implementation support efforts, we have learned that some of these costs are related to firms interpreting a "complete and final set of documentation" to be similar to an audit file after the completion of an engagement. Firms explained that, unlike engagement documentation, a firm's QC system involves many ongoing systems that would be unable to be stopped and "assembled for

[85] *See* letters from Deloitte; EY; GT; KPMG; and PwC.

retention" at a particular date. Some firms, through comment letters[86] or through our implementation support efforts, said that significant costs would be incurred related to the implementation of new or enhanced systems for purposes of meeting the requirement. One firm stated during our implementation support efforts that it anticipated needing to take thousands of screenshots of documentation residing in source systems in order to assemble it within the central QC documentation. Other firms described similar implementation challenges relating to the transfer of large amounts of QC documentation into a single central repository for the purposes of compliance with QC 1000. One commenter also raised concerns regarding the central maintenance of confidential personnel or privileged information and the possible risks this may create.[87]

After considering concerns raised regarding implementation of the documentation requirements, we are proposing amendments to QC 1000.84 to clarify that the QC documentation should be completed and retained "in a manner that permits timely retrieval," rather than "assembled for retention," by the QC documentation completion date. We believe that this proposed amendment could reduce the burdens and costs associated with preparing and retaining the required documentation of the QC system while still accomplishing our regulatory goals, including enabling PCAOB inspection of the design, implementation, and operation of the QC system and the firm's QC system evaluation.

We believe the proposed amended documentation requirement would clarify that firms are permitted to maintain the documentation of their QC system in the documentation's original system of record and not require the potentially costly and time-consuming transfer and assembly of documentation from the various source systems into a single system for archiving and retention. In addition to clarifying that the firm need not transfer the documentation between systems, we believe that this proposed amendment would also address concerns regarding the need for new technology solutions to be implemented by the firm for the purpose of meeting QC 1000's documentation requirements because the revised requirement would make clear that documentation can continue to exist within the systems in which it originated or was used as long as it remains available for retrieval, e.g., for purposes of subsequent monitoring or inspection. We believe that this proposed amendment would also alleviate concerns regarding data confidentiality such that documentation can continue to exist in the system of record without creating additional data transfer risks or the potential increase to the number of individuals with access rights to the data.

In addition, we acknowledge that a firm's QC system is continuously operating and the firm might not have the capability to take snapshots of the documentation at a point in time or for the systems to be locked down and archived. Therefore, the proposed amended requirement would require that the documentation be retained in a manner that permits

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86 *See* letters from GT and KPMG.

87 *See* letter from PwC.

timely retrieval. Firms are not expected to continuously or periodically take a snapshot of the system's data to meet this amended requirement. However, given that QC documentation may reside within live systems under this amended requirement, the firm would need to be able to access and timely retrieve the documentation required by paragraphs .81-.83 as it existed at the time that it was considered complete. Documentation would be considered timely retrievable when it is made available in a manner that does not hinder an experienced auditor's ability to understand the design, implementation, and operation of the QC system during a particular evaluation period in accordance with QC 1000.83b and the accompanying note.

QC 1000 requires that the firm perform an evaluation of the effectiveness of its QC system annually as of September 30, report on that evaluation to the PCAOB not later than November 30, and complete its QC documentation by December 14. In conjunction with the proposed amendments to paragraphs .77 and .79 of QC 1000, which would permit firms to select their own evaluation date and report on that evaluation no later than 60 days after that date, we are also proposing to amend the QC documentation completion date to be 14 days after Form QC is filed (or due to be filed, if earlier).

.86 The firm must retain the documentation of its QC system required under paragraphs .81-.83 and paragraph .85 for ~~seven~~five years from the QC documentation completion date, unless a longer period of time is required by law.

QC 1000 includes a requirement that the firm retain QC documentation for seven years from the QC documentation completion date, unless a longer period is required by law.

Commenters raised several concerns regarding the seven-year document retention requirement.[88] Several of these commenters suggested that requiring the retention of large volumes of documentation for a period of seven years is creating implementation challenges such as increased costs and operational complexity.[89] Some commenters stated that a requirement to retain documentation for seven years does not improve audit quality and creates an unnecessary burden on firms without a corresponding benefit.[90] During our implementation support efforts, some firms stated that they would encounter challenges if systems that hold QC documentation were retired and would incur costs to maintain system licenses for seven years. One firm stated that some firms operate in jurisdictions that require documentation to be retained for only five years and said that they were experiencing implementation challenges with changing to a seven-year retention requirement. Another firm

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88 *See* letters from CAQ; Crowe; Deloitte; EY; GT; and KPMG.

89 *See* letters from Deloitte; EY; GT; and KPMG.

90 *See* letters from Crowe; Deloitte; and KPMG.

stated that seven years goes beyond what it would consider necessary and conflicts with some of its current system policies, such as its email retention policy.

Some commenters stated that the requirement to retain documentation for seven years is significantly different from ISQM 1[91] and suggested that this difference causes challenges.[92] We do not believe that it would be appropriate, in light of our statutory mandate, to follow a similar approach to ISQM 1, whereby the firm need retain QC documentation only for a period that is sufficient to enable the firm's own monitoring of its QC system (or for a longer period if required by law or regulation). Such a change would adversely affect the PCAOB's oversight activities relating to a firm's QC system and would potentially have an impact on audit quality.

After considering implementation challenges with the seven-year retention requirement, we are proposing to amend paragraph .86 to reduce the QC documentation retention period to five years from the QC documentation completion date. We believe that reducing the number of years that firms are required to retain QC documentation to five would not adversely affect firms' ability to monitor their QC systems or the PCAOB's ability to inspect, and would not otherwise have any impact on audit quality. Furthermore, the approach we are suggesting does not conflict with ISQM 1. On the contrary, ISQM 1 expressly contemplates that regulators such as the PCAOB may require a longer retention period than the firm itself would deem sufficient for purposes of ISQM 1.

Questions

28. Are the proposed amendments to paragraph .84 sufficiently clear and appropriate? If not, why not?

29. Is the proposed amendment to retain documentation for five years sufficiently clear and appropriate? If not, why not?

H. Additional Commenter Feedback on QC 1000

Comments received on the Board's strategic priorities that relate to the requirements of QC 1000 and have not previously been addressed in the QC 1000 rulemaking process are generally discussed above, in the context of the requirements to which they relate. In addition, one firm commenter suggested that the Board re-evaluate the requirement in paragraph .62b of QC 1000 to inspect at least one completed engagement for each engagement partner on a

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[91] ISQM 1 requires the firm to establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality management, or for a longer period if required by law or regulation. *See* paragraph 60 of ISQM 1.

[92] *See* letters from CAQ; Deloitte; EY; and GT.

cyclical basis, irrespective of engagement-level risk and the effectiveness of other QC activities.[93] The commenter said the requirement posed particular challenges for non-U.S. firms where PCAOB engagements are a relatively small portion of their overall audit portfolio, subjecting the same engagements or partners to repeated inspection. We continue to believe that this requirement is appropriate and that inspection of non-PCAOB engagements would not be an adequate substitute in light of the differences in applicable professional and legal requirements. We also note that paragraph .62b does not mandate any particular frequency for such inspections, although a firm using a cycle longer than every three years would have to demonstrate how its chosen cycle is adequate to provide a reasonable basis for detecting engagement deficiencies and QC deficiencies.

IV. PROPOSED AMENDMENTS TO OTHER PCAOB FORMS

We are proposing amendments to PCAOB reporting forms to align terminology, concepts, and cross-references with the proposed amendments to QC 1000 discussed in Section III.

In addition, in connection with the QC 1000 adoption, Form 1 and Form 2 were amended to include an item in which firms confirm whether they have designed a QC system in accordance with QC 1000. If we adopt the proposed amendments discussed in Section III.A., we would also make corresponding proposed amendments to remove the instructions and requirement for firms to confirm whether they have designed a QC system in accordance with QC 1000.

The text of the proposed amendments to Form 1 and Form 2 appears in Appendix 3.

Questions

30. Are the proposed amendments to Form 1 and Form 2 in Appendix 3 appropriate? If not, why not?

31. Should a firm applying for registration be required to report on Form 1 which quality management standard(s) (e.g., QC 1000, ISQM 1, or SQMS 1) its QC policies are based on?

V. ECONOMIC CONSIDERATIONS

The Board is mindful of the economic impacts of its standard setting. When the Board adopted QC 1000, it included an economic analysis of the new standard in the adopting release, including discussion of the benefits and costs of key provisions, some of which would be

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[93] *See* letter from KPMG 2026.

affected by the proposed amendments.[94] The Board also submitted a comment letter to the SEC that provided additional information regarding its economic analysis, including the benefits and costs of the EQCF requirement, which the Board is proposing to eliminate.[95] When the SEC approved QC 1000, it included additional discussion of the benefits and costs of certain of the provisions of QC 1000 and related amendments in its order granting approval.[96]

In this section we provide some discussion of the benefits and costs of the proposed amendments, including, for some of the proposed amendments, discussion of new information. There are limited data and research findings available to estimate quantitatively the economic impacts of the proposed amendments. Therefore, the economic considerations are largely qualitative in nature. However, where reasonable and feasible, the economic considerations incorporate newly available quantitative information for public review and comment.[97] The economic considerations also consider information about firms' implementation activities obtained through the PCAOB's implementation support efforts. We encourage commenters to provide additional data and information that could inform the Board about the benefits and costs of the proposed amendments.

The economic considerations discussed in this section consider potential impacts relative to a regulatory baseline in which QC 1000, as originally adopted by the PCAOB and approved by the SEC, will be effective. Since QC 1000 is not yet effective, the economic considerations acknowledge that the proposed amendments, if adopted, could allow many firms to avoid some QC system design and implementation costs that would be incurred if QC 1000 were to take effect as originally adopted. Notably, however, we believe certain design and implementation costs may have already been incurred and likely could not be recovered.

In the adopting release, we noted that QC 1000 would benefit investors and other financial statement users by improving compliance with applicable professional and legal requirements.[98] We explained that QC 1000 would achieve this by (1) explicitly connecting the components of the QC system into an integrated cycle of risk assessment, performance monitoring, and remediation; (2) emphasizing accountability to the reasonable assurance objective; and (3) enhancing the Board's ability to inspect and enforce compliance.[99] We noted that improved compliance with auditing standards can improve financial reporting quality,

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94 *See* PCAOB Rel. No. 2024-005, at 345-351, 355-360.

95 *See* Board Letter.

96 *See* SEC Rel. No. 34-100968.

97 Staff gathered data and performed this analysis in the first and second quarters of 2026. The analysis relies on PCAOB filings data available as of May 12, 2026.

98 *See* PCAOB Rel. No. 2024-005, at 341.

99 *See id.* at 341.

benefiting investors. We also noted that improved financial reporting quality can improve capital market efficiency, increase capital formation, and reduce cost of capital to audited companies.[100] Regarding costs, we noted that there would be direct costs to firms to design and, as applicable, implement and operate a QC system that complies with QC 1000.[101] We noted that the design and implementation costs would be largely fixed in nature and would decline over time.[102] We also noted there could be indirect costs to audited companies to the extent firms request more information or require greater fees.[103]

With QC 1000 as the baseline, this section discusses the impacts of the proposed amendments through the lens of augmentation or attenuation of these overarching impacts. For example, to the extent a proposed amendment reduces the effectiveness of firms' QC systems, this could negatively impact compliance with applicable professional and legal requirements and in turn financial reporting quality. Conversely, to the extent a proposed amendment reduces direct costs to audit firms, it could also benefit audited companies in the form of lower audit fees. Where appropriate, we have noted compensating factors that may attenuate these impacts. For example, since QC 1000 establishes outcome-based quality objectives, risk created by reduced requirements in one area may be addressed by other requirements in a related area.

With these considerations in mind, we begin below by first discussing two types of data that are relevant to the potential economic impacts of the proposed amendments: first, the number of firms that are subject to particular provisions of QC 1000, and second, recent trends in the number of firms that requested to withdraw from registration or applied for registration with the PCAOB. We then turn to discussion of the benefits and costs of specific proposed amendments. We end with discussion of differential impacts for firms of different sizes and impacts on emerging growth companies (EGCs).

A. Number of Firms Subject to QC 1000 Provisions

QC 1000 applies to all firms, but certain of its provisions apply to only a subset of firms. Specifically:

- All firms are required to design a QC system that complies with QC 1000.
- Firms must implement and operate a QC system that complies with QC 1000 when they lead an engagement under PCAOB standards, play a substantial role in the

100 *See id.* at 344.

101 *See id.* at 352.

102 *See id.* at 353.

103 *See id.* at 355.

preparation or furnishing of an audit report (as defined in our rules), or have current responsibilities under applicable professional and legal requirements regarding any such engagement.[104] We refer to firms that are required to implement and operate a QC system as "full-implementation" firms. Under QC 1000 as adopted, all other firms are required to design (but not implement or operate) a QC system; while we refer to these herein as "design-only" firms, the Board is proposing to rescind this requirement.

- Firms that issued audit reports with respect to more than 100 issuers in the prior calendar year are required to implement several additional requirements.[105]

Table 1 summarizes the number of firms that would likely fall into various categories, including the categories discussed above. Firms that reported any engagements on their Form 2 filings from the prior seven reporting years are classified as full-implementation firms because they are likely subject, at a minimum, to audit documentation requirements. Table 1 is relevant to several of the analyses that appear below.

- Table 1 shows that 49% (734 ÷ 1,489) of the firms in our sample would be design-only firms. Figure 1 in Section V.B. below utilizes the same methodology to identify design-only firms. Section V.C. discusses the impacts of the proposed amendment to rescind the design-only requirement, which would primarily impact the design-only firms.

- Table 1 also shows that 1% ((5 + 7) ÷ 1,489) of the firms in our sample would be subject to QC 1000's requirements that apply to firms that audit more than 100 issuers; to the extent that any such requirement is adjusted to apply only to firms that audit more than 500 issuers, then the table shows that seven fewer firms would be subject to such requirement. Section V.E. below discusses the impacts of the proposed amendment to rescind the EQCF requirement, which is one such

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[104] An "engagement" is any audit, attestation, or other engagement performed under PCAOB standards: (1) led by a firm; or (2) in which a firm "play[s] a substantial role in the preparation or furnishing of an audit report" as defined in PCAOB Rule 1001(p)(ii). *See* QC 1000.A3. Playing a substantial role in the preparation or furnishing of an audit report means (1) to perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report, or (2) to perform the majority of the audit procedures with respect to a subsidiary or component of any issuer, broker, or dealer, the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer, broker, or dealer necessary for the lead auditor to issue an audit report. *See* PCAOB Rule 1001(p)(ii).

[105] *See* PCAOB Rel. No. 2024-005, at 9. Staff note that broker-dealer audit reports are not counted for purposes of determining whether firms are required to implement these additional requirements.

requirement with a 100-issuer threshold. Section V.J. provides additional discussion on how the impacts would vary by firm size.[106]

- Finally, Table 1 shows that 23% (336 ÷ 1,489) of the firms in our sample issued no audit reports for issuers during the 2025 reporting period yet would still qualify as full-implementation firms based on (i) broker-dealer audit reports issued during the 2025 reporting period; (2) substantial roles played with respect to an issuer or broker-dealer audit report during the 2025 reporting period; or (3) issuer or broker-dealer audit reports issued or substantial roles played with respect to such audit reports during the six prior reporting periods.

Table 1. Full-Implementation and Design-Only Firms, U.S. and Non-U.S.

	Firms	U.S. Firms	Non-U.S. Firms
All firms	1,489	662	827
Full-implementation firms	755	393	362
By recent issuer audit report count			
More than 500	5	5	0
101 – 500	7	7	0
1 – 100	407	192	215
0	336	189	147
Design-only firms	734	269	465

Source: PCAOB Form 2 filings.

Notes: (1) Table 1 shows the counts of firms registered with the PCAOB as of March 31, 2025, excluding firms with withdrawal pending or suspended status. U.S. and non-U.S. firms are defined based on firm headquarters locations as indicated in their required PCAOB filings. Staff considered firms registered as of March 31, 2025, because the most recent Form 2 filings as of the date of this analysis cover the period from April 1, 2024, through March 31, 2025. The number of firms has changed since March 31, 2025, due to registration approvals and withdrawals from registration.

(2) Staff identified full-implementation and design-only firms based on their annual Form 2 fillings for the 2019 through 2025 reporting periods, which cover firm activity from April 1, 2018, to March 31, 2025. Staff classified a firm as full-implementation if the firm reported on any of its 2019 through 2025 Form 2 filings that it issued an audit report with respect to any issuer, broker, or dealer or that it played a substantial role with respect to any such audit report during the 2019 through 2025 reporting periods. On such engagements, the firms in our sample would likely have been subject at least to audit documentation requirements as of March 31, 2025. Staff classified all other firms as design-only firms. Staff assumed that a firm that did not file a Form 2 for a given reporting period did not lead or play a substantial role in any issuer or broker-dealer audit during the reporting period. The staff's methodology may misassign firms to the extent firms incorrectly completed or failed to

[106] The number of firms that will be subject to QC 1000's requirements that apply to firms that issued audit reports for more than 100 issuers in the prior calendar year may differ because Table 1 presents counts of issuer audit reports issued during the 2025 reporting period, as reported by firms in their Form 2 filings, which is not a calendar year. Staff note that firms that have issued audit reports for more than 100 issuers during the prior calendar year are subject to annual inspection and, as of the time of this analysis, 13 firms are subject to annual inspection.

file their Form 2. A firm's implementation status (i.e., full-implementation or design-only) as of March 31, 2025, is hypothetical since QC 1000 was not in effect at that time. A firm's actual implementation status may be different when QC 1000 becomes effective.

(3) For purposes of categorizing full-implementation firms by their recent issuer audit report counts, staff referred to the number of audit reports issued by the firm for issuers based on the firm's 2025 Form 2 filing.

In the adopting release, we said we believed that most firms had either implemented ISQM 1 already or would implement SQMS 1 when it goes into effect.[107] We noted that one commenter said that nearly all firms are subject to multiple QC standards, including ISQM 1, and concluded that the comments indicated that firms have made progress implementing the quality management standards of other standard setters.[108] We also cited several public information sources that supported our view that most firms will be complying with either ISQM 1 or SQMS 1.[109]

We continue to believe most firms are subject to either ISQM 1 or SQMS 1, which share many common features with QC 1000. This view is informed by several staff analyses of public data sources.[110] In the adopting release, we acknowledged that even firms that have an ISQM 1

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107 *See* PCAOB Rel. No. 2024-005, at 330.

108 *See id.* at 331.

109 *See id.* at 331.

110 Staff performed several quantitative analyses to test our view that most firms are subject to either ISQM 1 or SQMS 1. First, using the AICPA Peer Review public website, staff manually checked whether U.S.-headquartered firms had been peer reviewed as part of the AICPA peer review program and are currently enrolled in the program. Staff found that 79% of these U.S. firms were peer reviewed and are currently enrolled in the program and thus would likely be subject to SQMS 1. Second, staff's review of firms' responses to Item 5.2 of their most recent Form 2 submissions indicates that 71% of non-U.S.-headquartered firms have an audit-related membership, affiliation, or similar arrangement (i.e., firms that answered "Yes" for either Item 5.2a.1 or Item 5.2a.2). These firms may obtain QC policies and procedures derived from ISQM 1 as part of these relationships. Third, 39% of non-U.S.-headquartered firms are members of the six largest global networks (BDO International Ltd., Deloitte Touche Tohmatsu Ltd., Ernst & Young Global Ltd., Grant Thornton International Ltd., KPMG International Cooperative, and PricewaterhouseCoopers International Ltd.). We believe these firms have likely adopted policies and procedures derived from ISQM 1 because these six global networks generally encourage member firms to adopt their global quality management frameworks which generally encompass ISQM 1. *See*, *e.g.,* PricewaterhouseCoopers U.S.'s 2025 Transparency Report (Oct. 31, 2025) at 4, *available at* https://www.pwc.com/us/en/about-us/assets/pwc-us-2025-transparency-report.pdf. Fourth, based on information published by the International Federation of Accountants (IFAC) and a web search for official pronouncements from local jurisdictions, staff identified countries that indicate that they have adopted ISQM 1 or similar quality management standards (*see*, *e.g.*, the "Quality Assurance" section of Switzerland's profile page on the IFAC webpage, *available at* https://www.ifac.org/about-ifac/membership/profile/switzerland, indicating that Switzerland "has issued national quality management standards . . . which are based on the International Standards on Quality Management

or SQMS 1 QC system in place will incur additional costs to design and implement QC 1000 requirements that are incremental to ISQM 1 and SQMS 1.[111] As described in more detail later in this section, the proposed amendments should mitigate some of these incremental costs. For example, the proposed amendments would rescind the requirement for all firms to design a QC

(ISQM) issued by the International Auditing and Assurance Standards Board (IAASB)"). Eighty-nine percent of non-U.S.-headquartered firms are headquartered in these countries. Fifth, just 8% of full-implementation firms reported on their 2025 Form 2 filings in Item 3.2a that 100% of their total fees billed to all clients for services rendered during the reporting period were attributable to fees billed to issuer audit clients. This suggests that few full-implementation firms specialize only in audits of issuers under PCAOB standards. We note that the letter from ACC said that many firms have already implemented international quality management requirements.

[111] *See* PCAOB Rel. No. 2024-005, at 351. The 2026 letter from RSM said there would be costs operating two separate quality control standards. The CAQ 2026 Letter provides some evidence related to (1) the overall costs to operate firms' systems of quality control and (2) the onetime and ongoing costs of the QC 1000 requirements that are incremental to ISQM 1 and SQMS 1. The CAQ 2026 Letter indicates that the CAQ obtained estimated cost data from nine of its member firms. Based on the letter, the surveyed firms (1) generally have the largest issuer portfolios; (2) collectively audit 99.6% of U.S. market capitalization; and (3) utilized different methodologies and assumptions when preparing their responses. Regarding overall costs, the letter reports that for respondents that were unable to gather the necessary data to quantify the incremental costs of ISQM 1, the cost to operate their respective systems of quality control is over half a billion dollars annually. Based on the letter, it is unclear whether this cost estimate refers to costs incurred by individual respondents or to total costs incurred by all respondents. We recognize that firms' systems of quality control require significant resources. Accordingly, as part of the adopting release, PCAOB staff conducted a voluntary survey of the U.S. members of the six largest global networks ("U.S. GNFs") on the resources they employ to design, implement, and operate QC policies and procedures. *See* PCAOB Rel. No. 2024-005, at 318. However, the CAQ 2026 Letter does not describe the methodology for defining the scope of the system of quality control (e.g., whether it includes engagement-level work related to the system of quality control, whether it includes spending on information technology). Regarding costs associated with QC 1000 requirements that are incremental to ISQM 1, the letter reports that, for respondents that were able to gather the necessary data, these costs are 224% of ongoing ISQM 1 costs. We note that this calculation includes onetime costs in the numerator (incremental QC 1000 requirements) but not in the denominator (ISQM 1 requirements). This may significantly inflate the percentage because we believe much of the costs are incurred in the onetime setup phase. Research on Sarbanes-Oxley implementation has found this to be the case in the context of public company ICFR systems. *See*, *e.g.*, John C. Coates and Suraj Srinivasan, *SOX After Ten Years: A Multidisciplinary Review*, 28 Accounting Horizons 627 (2014). Further, the CAQ 2026 Letter reports that average estimated onetime and ongoing QC 1000 costs are $18.9 million and $12.1 million, respectively. Since firms have not completed their QC 1000 implementation, it is unclear whether the reported implementation cost estimate includes future spending. Staff note that, while the survey respondents were asked to report costs of the QC 1000 requirements that are incremental to ISQM 1 and SQMS 1, respondents' use of different and undisclosed methodologies and assumptions in their estimates makes it difficult to evaluate the reliability of these estimates.

system that complies with QC 1000, which should mitigate incremental costs for firms that do not have obligations with respect to PCAOB engagements (i.e., design-only firms).

B. Registration Activity

Commenters suggested that some firms have withdrawn or are in the process of withdrawing from PCAOB registration due to QC 1000.[112] Commenters also suggested that design-only firms would be especially incentivized to withdraw from PCAOB registration to avoid the costs associated with designing their QC systems in compliance with QC 1000.[113]

To inform the Board's consideration of the potential impact QC 1000 is having on registration activity, Figure 1 shows trends in the number of requests to withdraw from registration and the number of applications for registration for calendar years 2020 through 2025. Panels A and B of Figure 1 summarize recent trends in the number of requests to withdraw from registration for full-implementation firms and design-only firms, respectively. To provide a sense of the significance of the number of requests, Panels A and B of Figure 1 also show the number of full-implementation and design-only firms, respectively, as of March 31 of each respective calendar year, using the same methodology staff used in Table 1 to identify whether a firm would likely qualify as a full-implementation firm. Staff note that the actual number of firms (both design-only and full-implementation firms) changes over the course of any calendar year. Overall, we observe an uptick in requests to withdraw from registration that appears to be related in some part to QC 1000. For example, 154 (9 + 79 + 2 + 59 + 5) withdrawal requests were filed in 2025, greater than any year since 2020, and 7% ((9 + 2) ÷ 154) of these cited QC 1000 as the reason. This trend appears to be more pronounced for design-only firms, with 10% (9 ÷ (9 + 79)) of design-only firm withdrawal requests citing QC 1000 as the reason versus 3% (2 ÷ (2 + 59 + 5)) of full-implementation firm withdrawal requests. We discuss some of these trends in greater detail in Section V.C. below where we discuss the impacts of the proposed rescission of the design-only requirement.

Panel C of Figure 1 summarizes recent trends in the number of applications for registration. To provide a sense of the significance of the number of applications, Panel C of Figure 1 also shows the number of firms as of March 31 of each respective calendar year. Staff note that the actual number of firms changes over the course of any calendar year. Most firms that apply to register with the PCAOB do not have prior engagements and therefore would be classified as design-only firms upon registering with the PCAOB. Overall, we observe that the number of applications for registration has not decreased in recent years but rather is slightly

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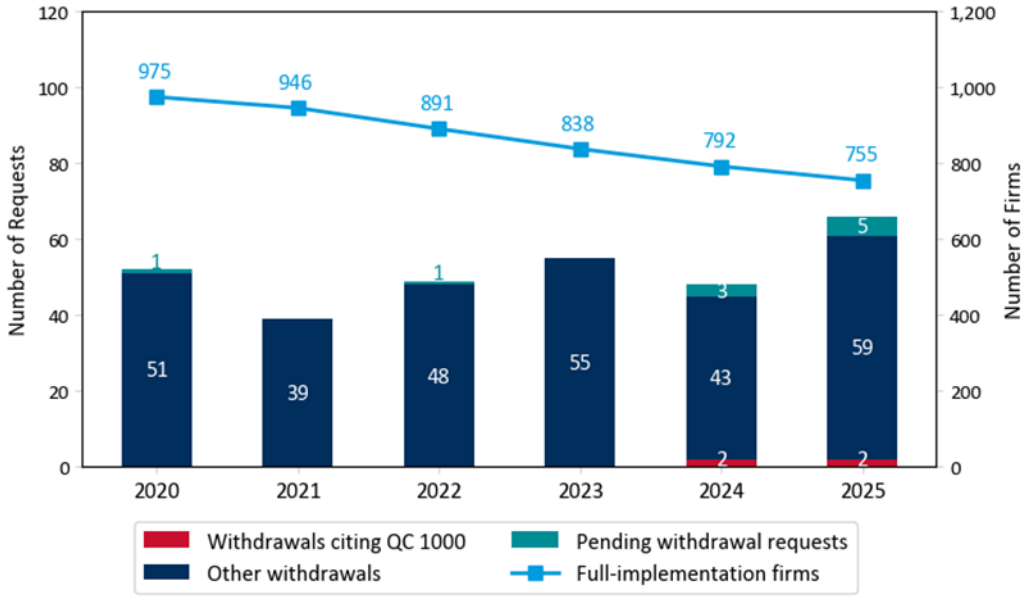
112 *See* letters from BDO; Crowe; and GT; CAQ 2026 Letter.

113 *See* letters from BDO; Crowe; and PwC; CAQ 2026 Letter.

higher than the number of applications filed per year between 2020 and 2022.[114] We discuss some of these trends in greater detail in Section V.C. below where we discuss the impacts of the proposed rescission of the design-only requirement.

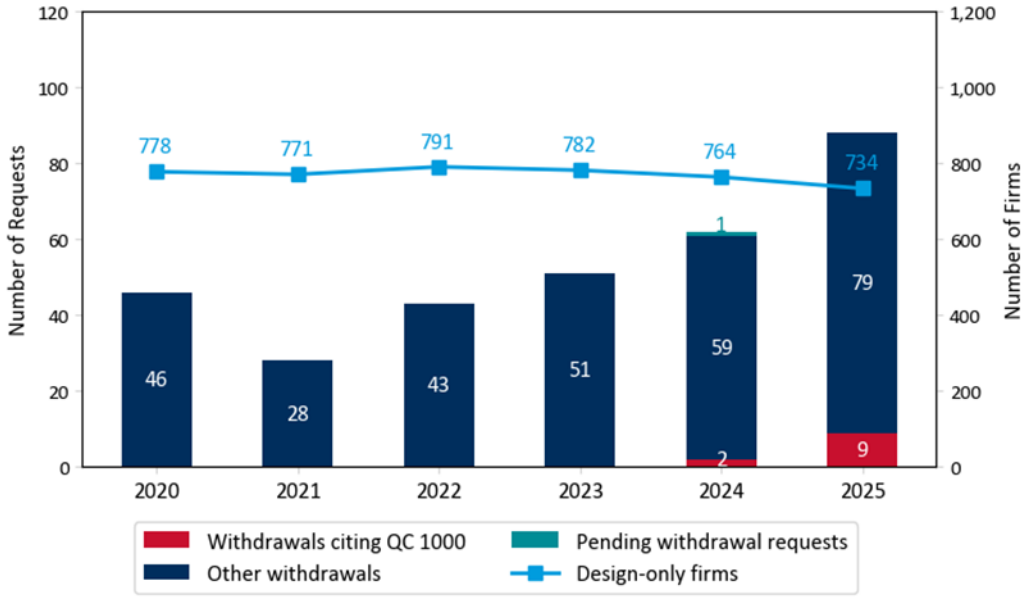
Figure 1. PCAOB Registration Activity

Panel A. Full-Implementation Firm Requests to Withdraw from Registration, Calendar Years 2020-2025

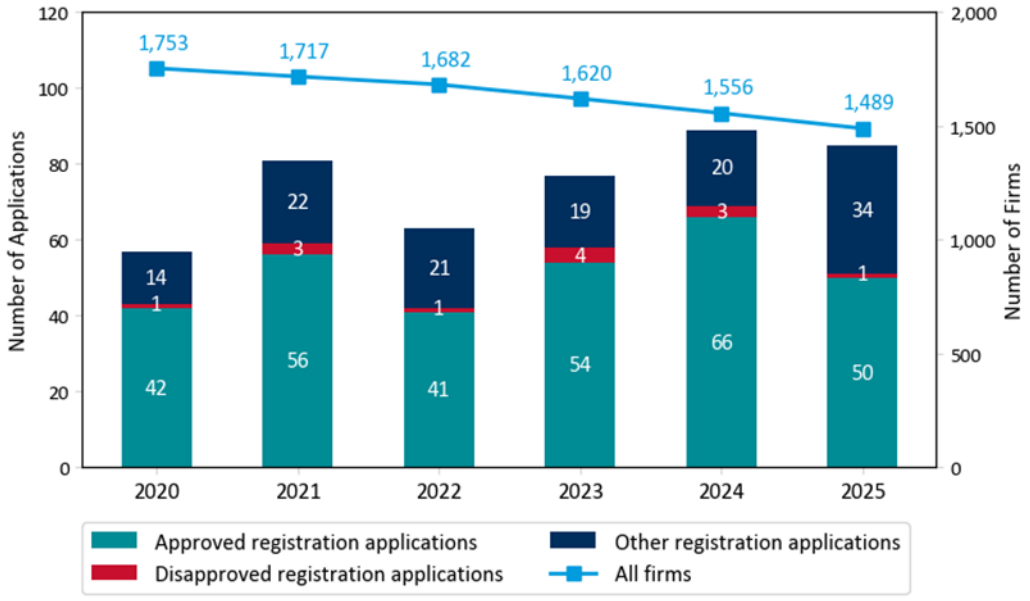


[114] We acknowledge that trends in the number of applications for registration may be driven by multiple factors. For example, part of the increase we observe may be driven in part by pandemic-related disruptions that occurred during the earlier part of the period.

Panel B. Design-Only Firm Requests to Withdraw from Registration, Calendar Years 2020-2025



Panel C. Applications for Registration, Calendar Years 2020-2025



Sources: PCAOB Form 2 filings; Form 1-WD filings; Form 1 filings.

Notes: (1) The number of firms in each panel of Figure 1 represents the count of firms registered with the PCAOB as of March 31 of each calendar year, excluding firms with withdrawal pending or suspended status. These firms are identified as full-implementation or design-only firms based on the information contained in their Form 2 filings for the seven reporting periods leading up to and including the calendar year. For example, firms as of March 31, 2020, are classified based on their 2014

through 2020 Form 2 filings. Staff assumed that a firm that did not file a Form 2 for a given reporting period did not lead or play a substantial role in any issuer or broker-dealer audit during the reporting period.

(2) Panels A and B show the number of Form 1-WD requests to withdraw from registration, grouped by the calendar year in which each request was initially filed, from 2020 to 2025. Request status (i.e., withdrawal or pending withdrawal request) is as of May 12, 2026. Staff identified the firms that filed a Form 1-WD as full-implementation or design-only based on their Form 2 filings for the most recent seven reporting periods prior to their Form 1-WD filing.

(3) Form 1-WD asks firms to provide a reason for their withdrawal. When firms do not provide a reason for withdrawing, PCAOB staff solicit a reason. The analysis reported in Figure 1 considers the reason submitted in Form 1-WD when available and the solicited reason otherwise. Of the 627 firms that filed withdrawal requests between 2020 and 2025, 17% (104 ÷ 627) did not provide a withdrawal reason through either channel. Among those that provided a reason, staff determined whether a firm cited QC 1000 based on a programmatic search for keywords related to QC 1000 followed by a manual review. Staff note that firms that cited QC 1000 may have requested withdrawal for other reasons as well. Staff also note that the staff's methodology may undercount the number of withdrawal requests related to QC 1000 to the extent firms did not explicitly mention QC 1000 as the reason for their withdrawal. For example, of the 122 firms that filed withdrawal requests in 2025 for which a withdrawal reason is available, four discussed overall compliance costs associated with PCAOB standards while not specifically citing QC 1000.

(4) Figure 1 does not include the 2026 calendar year because it is a partial calendar year as of the time this analysis was performed and therefore is not directly comparable to earlier years. However, staff note that, as of May 12, 2026, there have been 26 withdrawal requests filed in 2026, and none cited QC 1000 as the reason for withdrawal.

(5) Panel C shows applications for PCAOB registration, grouped by the calendar year in which each application was initially filed, from 2020 to 2025. Application status (i.e., approved, disapproved, or other) is as of May 12, 2026. The "other registration applications" group includes applications under review and applications withdrawn by firms. Staff note that there are fewer approved applications in 2025 likely because many applications filed in 2025 are still under review.

C. Requirement to Design, Implement, and Operate a QC System

The proposed amendments would rescind the requirement for design-only firms to design a QC system that complies with QC 1000.

In the adopting release, we noted that requiring design-only firms to design a QC system that complies with QC 1000 would better position these firms to accept and perform engagements in compliance with applicable professional and legal requirements.[115] We also noted that design-only firms would face design costs incremental to the requirements of complying with ISQM 1 or SQMS 1, including around ethics, independence, monitoring, and remediation, and that these costs could lead some firms to withdraw from PCAOB registration.[116]

Table 1 indicates that, based on the set of firms registered as of March 31, 2025, approximately 734 firms will be design-only under QC 1000 as adopted. While design-only firms comprise 49% (734 ÷ 1,489) of the population of firms, their role in the issuer and broker-dealer audit market is relatively smaller by comparison. Based on their PCAOB Form 2 filings, design-only firms did not play a lead or substantial role on any engagements in the 2019 through 2025 reporting periods. However, 5% (35 ÷ 734) of design-only firms provided at least 5% of total

115 *See* PCAOB Rel. No. 2024-005, at 346.

116 *See id.* at 355.

audit hours on the audits of 51 issuers during the 2025 reporting period. The total audit fees paid to the lead auditor and all participants on these engagements were approximately $379 million.[117]

As described and further elaborated upon in Section V.A. above, we said in the adopting release that we believed that most firms had either implemented ISQM 1 already or would implement SQMS 1 when it goes into effect. We continue to believe this is the case and we believe it is the case for design-only firms in particular.[118] Furthermore, 12% (86 ÷ 734) of the

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[117] For three of these 51 issuer audits, multiple design-only firms (three on average) provided at least 5% of the total audit hours. The remaining 95% (699 ÷ 734) of design-only firms were not identified on any Form AP filings for audit reports issued during the 2025 reporting period. The staff's analysis is based on Form AP filings for audit reports issued during the 2025 reporting period (i.e., from April 1, 2024, through March 31, 2025). In cases where multiple audit reports were issued with respect to the same issuer during the reporting period, staff selected the Form AP associated with the most recent audit report. Firms are identified on Form AP as other accounting firms if they provided at least 5% of the total audit hours for the engagement. *See* Form AP instructions, *available at* https://pcaobus.org/about/rules-rulemaking/rules/form-ap---auditor-reporting-of-certain-audit-participants. Form AP filings are available for download from the Board's website, https://pcaobus.org/resources/auditorsearch. The staff's methodology searches for other accounting firm roles in Form AP filings using the firm's Firm ID. Accordingly, the staff's methodology may undercount other accounting firm roles to the extent firms never filed a Form AP or firms that filed a Form AP failed to report Firm IDs of other accounting firms. Staff obtained audit fees data from Audit Analytics. Staff note that academic literature finds that audit fees are highly correlated with audit hours. *See*, *e.g.*, Daniel Aobdia, *Do Practitioner Assessments Agree with Academic Proxies for Audit Quality? Evidence from PCAOB and Internal Inspections*, 67 Journal of Accounting and Economics 144 (2019), Table 4 (finding Spearman and Pearson correlations of 0.91 and 0.90, respectively, between audit hours and audit fees for PCAOB-inspected audit engagements). Therefore, the level of participation by these design-only firms in these audits provides a proxy for their share of the total audit fees. The most common level of participation (63% of roles played) was 5% to less than 10% of total audit hours. As design-only firms, all should have played a less-than-substantial role, and therefore their hours should not constitute more than 20% of the total engagement hours provided by the lead auditor. From April 1, 2025, through May 12, 2026, 36 design-only firms provided at least 5% of the total audit hours on the audits of 47 issuers. The total audit fees paid to the lead auditor and all participants on these engagements were approximately $187 million. For three of these 47 issuer audits, multiple design-only firms (three on average) provided at least 5% of the total audit hours.

[118] Staff performed several quantitative analyses to test our view that most design-only firms are subject to either ISQM 1 or SQMS 1. These analyses largely mirror the analyses staff performed with respect to the full population of firms registered as of March 31, 2025. First, using the AICPA Peer Review public website, staff manually checked whether U.S.-headquartered design-only firms had been peer reviewed as part of the AICPA peer review program and are currently enrolled in the program. Staff found that 74% of these U.S. firms were peer reviewed and are currently enrolled in the program and thus would likely be subject to SQMS 1. Second, staff's review of firms' responses to Item 5.2 of their

2025 design-only firms have failed to file a Form 2 and pay their annual fees to the PCAOB for at least two consecutive years. These firms might have ceased to exist or might no longer be operational. If their delinquencies persist, they would be eligible for withdrawal from PCAOB registration at the Board's discretion.[119]

For design-only firms that remain registered following the effective date of QC 1000, the proposed amendments would essentially eliminate the need to make any initial changes to their QC system designs and to annually identify and assess quality risks. For design-only firms that register (or re-register) in the future, the proposed amendment would, at a minimum, also eliminate the need to annually identify and assess risks after they register.[120] These cost savings would be largest for the subset of design-only firms that are not required to implement ISQM 1 or SQMS 1 already because the savings would reflect the avoided costs of designing a wholly

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most recent PCAOB Form 2 filings indicates that 61% of non-U.S.-headquartered design-only firms have an audit-related membership, affiliation, or similar arrangement (i.e., firms that answered "Yes" for either Item 5.2a.1 or Item 5.2a.2). These firms likely obtain QC policies and procedures derived from ISQM 1 as part of these relationships. Third, 16% of non-U.S.-headquartered design-only firms are members of the six largest global networks. We believe these firms have likely adopted policies and procedures derived from ISQM 1 because these six global networks generally encourage member firms to adopt their global quality management frameworks which generally encompass ISQM 1. *See*, *e.g.,* PricewaterhouseCoopers U.S.'s 2025 Transparency Report (Oct. 31, 2025) at 4, *available at* https://www.pwc.com/us/en/about-us/assets/pwc-us-2025-transparency-report.pdf. Fourth, based on information published by IFAC, staff identified countries that indicate that they have adopted ISQM 1 or similar quality management standards (*see*, *e.g.*, the "Quality Assurance" section of Switzerland's profile page on the IFAC webpage, *available at* https://www.ifac.org/about-ifac/membership/profile/switzerland, indicating that Switzerland "has issued national quality management standards . . . which are based on the International Standards on Quality Management (ISQM) issued by the International Auditing and Assurance Standards Board (IAASB)"). Eighty-eight percent of non-U.S.-headquartered design-only firms are headquartered in these countries and may therefore be adopting ISQM 1 or similar standards. We note that the CAQ 2026 Letter indicated that, in most cases, design-only firms have already adopted ISQM 1.

[119] For more information on this withdrawal process, *see Constructive Requests to Withdraw from Registration*, PCAOB Rel. No. 2024-011 (Nov. 14, 2024), and *Public Company Accounting Oversight Board; Order Granting Approval on Constructive Requests to Withdraw from Registration*, SEC Rel. No. 34-102074 (Jan. 2, 2025).

[120] For design-only firms that register (or re-register) in the future, the proposed amendments may also reduce costs associated with the registration process; however, the extent of any cost reduction will depend on how the Board evaluates registration applications after QC 1000 goes into effect. As noted above, under Section 102(b)(2)(D) of Sarbanes-Oxley, applicant firms are required to provide a statement of the quality control policies of the firm for its accounting and auditing practices when applying to register with the PCAOB. *See* Registration FAQ, at Q.32 In light of QC 1000, the Board may opt to revise its interpretation or implementation of this requirement or its criteria for evaluating these statements.

new QC system rather than the more modest costs of incremental changes to an existing system. Whether or not already subject to ISQM 1 or SQMS 1, any such benefits will be reduced to the extent that such design-only firms have already incurred design costs (e.g., to design a QC system that addresses QC 1000 requirements incremental to ISQM 1 or SQMS 1).

For design-only firms that have withdrawn from PCAOB registration or plan to do so as a result of QC 1000, the proposed amendments could incentivize many of these firms to re-apply for PCAOB registration or remain registered. This could benefit these firms as it could allow them to profit through greater participation in the PCAOB audit market (e.g., as discussed below, in cases where lead auditors prefer to use registered firms for less-than-substantial-role work even though it is not required). This benefit would be offset in part by the costs of re-applying for registration. The increase in the number of registered firms could also benefit audited companies as it could increase the supply of firms that could be in the position, after designing, implementing, and operating a QC 1000-compliant system, to accept engagements and serve as a lead auditor or to play a substantial role in the future.[121] Staff analysis suggests that this is not uncommon. For example, we found that roughly 8% (62 ÷ 778) of the 2020 design-only firms reported a lead or substantial role at least once over the following five reporting periods.[122] While lead auditors may be able to continue using design-only firms that withdraw from PCAOB registration as a result of QC 1000 at a level below a substantial role, some lead auditors may have a preference to use registered firms. If the design-only requirement is eliminated and these firms remain registered or return to PCAOB registration, such lead auditors will be able to continue using the work of these firms and thereby avoid the inconvenience and risk of transitioning this work to a different other accounting firm or decreasing the share of work performed by other accounting firms. Similarly, some audit

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[121] Panel B of Figure 1 provides an indication of this population of design-only firms. It indicates that between 2020 and 2025, 11 design-only firms requested to withdraw from registration citing QC 1000 as the reason. As discussed in greater detail below, staff analysis indicates that these firms played a relatively small role in the overall audit market. We recognize that, absent the proposed amendments, the number of registration withdrawals could increase in the future after QC 1000 goes into effect. We also note that the impacts discussed in this paragraph apply similarly to future design-only firms that might choose to remain unregistered due to QC 1000. Consistent with the discussion in the adopting release, an increase in the supply of design-only firms may lower audit fees but may also lead to audit quality risks. For example, there may be increased potential for opinion shopping since issuers and broker-dealers would have a larger set of potential lead auditors from which to select. *See* PCAOB Rel. No. 2024-005, at 361-365. However, recent literature suggests that audit quality may improve in the specific context of potential competition among smaller firms. *See* Devin Williams, *The Effect of Potential Entrants on Audit Market Competition*, 100 The Accounting Review 375 (2025) (finding that the potential competitive threat posed by firms that have no publicly traded clients lowers audit fees and increases audit quality for engagements performed by triennially inspected firms).

[122] Staff determined the proportion of 2020 design-only firms that subsequently entered into an engagement using their 2021 through 2025 Form 2 filings.

committees may only consider retaining firms to be the lead auditor to the extent they are already registered with the PCAOB and would not consider, for example, design-only firms that withdrew from registration due to QC 1000 and are seeking to re-register to take the engagement. Accordingly, the increased supply of registered firms could support or increase competition in the audit market.[123]

Design-only firms that plan to withdraw from registration as a result of QC 1000, but have not yet done so, would also be able to avoid the time and costs of re-applying for registration. Staff analysis of PCAOB registration data indicates that the registration process requires on average 133 days between initially filing a Form 1 and receiving approval from the Board and includes a fee of $500 dollars.[124]

Panel B of Figure 1 shows that the number of design-only firms has been decreasing since 2022. This appears to be driven in part by an increase in the number of withdrawals starting in 2022. Requests to withdraw from registration by design-only firms increased substantially in 2025, some of which could be attributed to anticipation of QC 1000. As discussed above, the proposed amendments could encourage these firms to re-apply for registration or reduce future withdrawals from registration. However, Figure 1 suggests this impact would be limited by several factors. Just 7% ((9 + 2) ÷ (9 + 2 + 59 + 79 + 1)) of the design-only firms that requested to withdraw from registration in 2024 and 2025 cited QC 1000 as the reason. This suggests that, in some cases, recent design-only firms' requests to withdraw from registration are for reasons unrelated to QC 1000 and we do not expect that the proposed

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[123] Academic research provides mixed findings regarding the impact PCAOB deregistration may have on audit quality. Staff note that recent unpublished research suggests that PCAOB deregistration is associated with an increase in audit fees for clients of deregistering firms. *See* Michael Ettredge, Juan Mao, and Mary S. Stone, *Small Audit Firms' Public Market Exits, Business Model Changes, and Market Consequences*, SSRN Electronic Journal (2024) (finding that audit firm deregistration does not appear to affect the audit quality of these firms' former issuer clients on average but it is associated with higher audit fees). Depending on the audit quality proxy, earlier research finds mixed results on the effect on audit quality of audit firm market exits following the passage of Sarbanes-Oxley. *See* Mark L. DeFond and Clive S. Lennox, *The Effect of SOX on Small Auditor Exits and Audit Quality*, 52 Journal of Accounting and Economics 21 (2011); Neil L. Fargher, Alicia Jiang, and Yangxin Yu, *Further Evidence on the Effect of Regulation on the Exit of Small Auditors from the Audit Market and Resulting Audit Quality*, 37 Auditing: A Journal of Practice & Theory 95 (2018). Staff note that, in these studies, PCAOB deregistration typically refers to withdrawal from PCAOB registration.

[124] The length of the registration process has changed over time. This estimate is based on the 304 firms that had their registration applications approved by the Board between 2020 and 2025. Section 102(c)(1) of Sarbanes-Oxley requires the Board to approve a completed application for registration not later than 45 days after the date of receipt of the application, in accordance with the rules of the Board, unless the Board, prior to such date, issues a written notice of disapproval to, or requests more information from, the prospective registrant. *See* PCAOB Rel. No. 2003-011F, at Q.11, for additional information on the time it takes firms to register.

amendments would encourage these firms to remain registered.[125] Furthermore, these firms had a relatively small market share and we do not expect their re-registration would have a significant impact on audit fees or audit quality. The 11 design-only firms that have withdrawn from registration citing QC 1000 as the reason reported no lead or substantial roles since the 2019 reporting period. Four of these 11 firms were named on Form AP as other accounting firms on seven audits of four issuers during this time. The total audit fees paid to the lead auditor and all participants for these seven audits were $17 million.[126] We recognize that the number of requests for registration withdrawal could increase in the future if QC 1000 goes into effect as adopted.[127]

Figure 1 also shows the number of applications for registration with the PCAOB by calendar year from 2020 to 2025. Almost all firms that applied for registration during this period had not performed an engagement (as defined in QC 1000) in the past seven years and therefore would be classified, upon their entry to PCAOB registration, as design-only.[128] Overall, there does not appear to be evidence that anticipation of QC 1000 has significantly reduced the level of registration activity. To the contrary, registration applications were at their highest over

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[125] Staff found no instances of a firm citing the new paragraph (h) ("Constructive Withdrawal Requests") of Rule 2107, which went into effect in 2025, as a reason for withdrawal.

[126] The audit reports of these seven audits were issued during the 2019 through 2023 reporting periods. For each of the seven audits, only one of the four firms was named. The remaining seven firms were not named on a Form AP since the 2019 reporting period. The staff's analysis is based on Form AP filings for audit reports issued since the 2019 reporting period (i.e., from April 1, 2018, through May 12, 2026). Staff obtained audit fees information from Audit Analytics. As noted above, audits fees are highly correlated with audit hours. The level of participation for all the other accounting firm roles played by these four firms on these seven audits was 5% to less than 10% of total audit hours.

[127] Staff recognize that design-only firms that have not affirmatively withdrawn from registration may also have lost interest in remaining registered with the PCAOB, which is a requirement to serve as a lead auditor or play a substantial role in the issuer and broker-dealer audit market. To evaluate whether any design-only firms may have lost interest in remaining registered in response to QC 1000, staff performed an analysis of trends in new design-only delinquent filers and payers. Staff identified by calendar year design-only firms that failed to file a Form 2 and pay their annual fees to the PCAOB for the two-year period ending in each calendar year, excluding firms that were already delinquent in prior years. The staff's analysis suggests that this form of disengagement (1) has been infrequent by comparison to the number of requests for withdrawal from registration and (2) was flat between 2022 and 2025 (six per year). Overall, while this form of disengagement may be driven by many factors, the evidence suggests that this form of disengagement has not increased due to QC 1000.

[128] Of the 452 firms that applied for registration between 2020 and 2025, 18 had been previously registered with the PCAOB at some point during the seven years before their current registration approval dates. Of these 18 firms, five had a lead or substantial role on engagements during the seven reporting periods prior to their return to PCAOB registration.

this six-year period in 2024, the year when QC 1000 was adopted. We recognize that the number of registration applications may decrease in the future after QC 1000 goes into effect.

The proposed amendments may also have some negative impacts. Design-only firms that choose not to voluntarily design a QC system that complies with QC 1000 may be less prepared to implement and operate a QC system under QC 1000 if they ever enter into an engagement. This could increase the risk that their engagements are not performed in compliance with applicable professional and legal requirements when these firms initially take on these engagements. For example, a design-only firm may unintentionally fail to account for a quality risk. As discussed above, staff found that roughly 8% (62 ÷ 778) of the 2020 design-only firms reported a lead or substantial role at least once over the following five reporting periods. These negative impacts would be mitigated, however, to the extent firms most interested in leading or performing a substantial role in an audit will have incentives to voluntarily design a QC 1000-compliant QC system in order to compete for engagements. These negative impacts would also be mitigated to the extent these firms already have a QC system design in place that complies with either ISQM 1 or SQMS 1 or they have already designed a QC system that complies with QC 1000.

D. Roles and Responsibilities

The proposed amendments would provide increased flexibility in assigning specified roles and responsibilities with respect to the QC system, including permitting roles to be assigned to non-firm personnel and dividing roles among multiple individuals.

The proposed amendments would reduce restructuring costs for firms that currently assign roles to non-firm personnel or divide roles among multiple individuals when operating their QC system. It could improve audit quality to the extent the responsibilities performed over firms' QC systems are carried out more effectively under the proposed amendments. For example, firms with larger and more complex audit practices (e.g., the U.S. GNFs) may find that some specific responsibilities required under QC 1000, such as the responsibility over ethics and independence compliance, require the expertise of multiple individuals. Firms may also find it excessively burdensome to identify a single individual willing to bear the entire responsibility over these areas. Firms with fewer staff may prefer to use individuals from other, larger firms that have more expertise and capacity. For context, 4% (30 ÷ 755) of the full-implementation firms identified in Table 1 have just one accountant on staff and 13% (95 ÷ 755) have between two and 10 accountants. Among these registered firms, 22% (28 ÷ 125) are a member of one of the six largest global networks or indicated on Item 5.2 of their 2025 Form 2 filings that they

were members of or affiliated with some other audit-related network, arrangement, alliance, partnership, or association.[129]

The proposed amendments could also have some negative consequences. If a firm's QC system responsibilities are split in subcomponents across multiple individuals, there could be a risk that subcomponents of the responsibilities are never assigned. For example, if a firm's QC system responsibility over monitoring and remediation is split into responsibility over monitoring and responsibility over remediation, responsibilities that could reasonably be assigned to either may inadvertently never be assigned. Absent an explicit assignment, individuals may not be motivated to pick up these responsibilities voluntarily. On the other hand, there could be a risk that certain subcomponents are assigned multiple times, leading to unnecessary costs to firms. It could also require greater coordination and communication between individuals with responsibility over related subcomponents (e.g., monitoring and remediation) and between these individuals and the individual(s) with ultimate responsibility. If information is not shared effectively, individuals may be forced to make decisions with incomplete information. If responsibility is assigned to an individual external to the firm, this external individual's incentives may not be aligned with the firm's incentives. For example, while firms may be able to align external individuals' incentives in part to the success of the firm's QC system using, for example, incentive contracting, external individuals may still be more interested in the reputation and commercial success of their home firms than their QC responsibilities to other firms. Furthermore, an external individual may be less familiar with the firm and, as an "other participant" for purposes of QC 1000, would not be subject to the firm's QC system in the same way as "firm personnel." These potential impacts could reduce the effectiveness of the QC system. However, these potential negative consequences would be mitigated by the requirement that the individual(s) assigned roles and responsibilities with respect to the QC system must understand and be accountable for their roles and responsibilities and must have the experience, competence, authority, and time needed to enable them to carry out their assigned responsibilities. These potential negative consequences could also be mitigated through the governance and leadership component of the QC system.[130]

E. External QC Function

The proposed amendments would rescind paragraph .28 of QC 1000, which requires firms that issued audit reports for more than 100 issuers in the prior calendar year to incorporate into their governance structure an external QC function, or EQCF.

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[129] Source: Firms' most recent Form 2 filings. Staff determined that firms were members of or affiliated with some other audit-related network, arrangement, alliance, partnership, or association if they answered "Yes" for Item 5.2a.1, Item 5.2a.2, or Item 5.2a.3 in their Form 2 filings.

[130] *See*, *e.g.*, QC 1000.25e, 1000.25f, and 1000.27.

In the adopting release, we noted that the EQCF requirement could help mitigate commercial considerations in decision making about a firm's QC system.[131] We also noted that firms would incur costs to retain individuals to provide the function and to change their existing governance approach. As a potential benchmark to inform some of these costs, we noted estimates of compensation for non-employee board directors in 2023 of approximately $328,000 per year.[132] We also noted that variation between the responsibilities of an oversight function and a non-employee director function may limit the relevance of this cost reference to some extent. In the Board Letter, we reported the range (approximately $77,000 to $385,000) and average (approximately $167,000) of total remuneration for individual independent non-executives (INEs) under the U.K.'s audit firm governance rules in 2023.[133]

As discussed in Section III.C., firm and firm-related groups have described in their comment letters a variety of implementation costs and challenges associated with the EQCF. For example, we heard that individuals are reluctant to take on the role out of liability concerns.[134] We have also heard that mid-sized firms are finding that the pool of interested and qualified individuals who are free of conflicts is small.[135] Furthermore, based on our implementation support efforts and outreach discussions, we understand that implementing this requirement has proven more difficult and more costly than originally anticipated.

Rescinding paragraph .28 of QC 1000 would reduce the costs to firms of hiring, retaining, and compensating suitable individuals for the EQCF role. We discuss updated potential benchmarks for the cost savings below. Firms could redeploy the funds and resources required to implement the EQCF requirement to other activities and would be free to incorporate an element of independence into their governance structures as they see fit.[136] On the other hand, to the extent that the EQCF role would help mitigate commercial considerations in decision making about a firm's QC system, the proposed amendment could remove a potentially beneficial element of firms' QC systems. However, this potential negative consequence would be mitigated by the quality objectives that firms are required to establish with respect to their governance and leadership.[137] Furthermore, based on information obtained through recent PCAOB oversight activities, 9 of the 13 firms that are annually

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131 *See* PCAOB Rel. No. 2024-005, at 347.

132 *See id.* at 356.

133 *See* Board Letter, at 20.

134 *See* letter from BDO.

135 *See* CAQ 2026 Letter.

136 The 2026 letter from KPMG said that the EQCF requirement would diminish firms' ability to direct their resources towards potentially more effective methods of engagement monitoring.

137 *See* QC 1000.25.

inspected as of the time of this analysis and therefore would likely be subject to the EQCF requirement already have an independent individual serving in an advisory role for the firm.

We are not aware of evidence that bears directly on the impact of rescinding the EQCF requirement. However, to inform the Board's consideration of the potential impacts of the proposed amendment, staff reviewed updated information related to: (1) the compensation for INEs disclosed by PCAOB-registered firms based in the U.K. pursuant to the 2022 Financial Reporting Council (FRC) Audit Firm Governance Code;[138] (2) market research on director salaries at S&P 500 companies; and (3) academic literature related to director independence.

Table 2 summarizes the staff's analysis of U.K. INE compensation. Total annual remuneration per INE ranges from $25,935 to $387,288 with an average of $141,691. The total annual remuneration is on average $180,850 for Big 4 firms[139] and $110,364 for other firms. Staff note that the U.K. total remuneration figures are an imperfect proxy for the actual costs to retain individuals to meet the EQCF requirement. Litigation risks are likely greater in the U.S. compared to the U.K., requiring greater compensation to retain individuals. In addition, the responsibilities are different. For example, the EQCF's only mandated responsibility is to evaluate significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.[140] By contrast, the INE is intended to observe, challenge, and influence decision making in the firm more broadly.[141]

Table 2. INE Annual Remuneration Per Individual Disclosed by Audit Firms in the U.K.

Firm Size	Average	Std. Deviation	Minimum	Maximum
Big 4	$180,850	$85,057	$56,480	$387,288
Other	$110,364	$34,367	$25,935	$238,828
All	$141,691	$68,437	$25,935	$387,288

Source: U.K. firm transparency reports.

Notes: (1) The staff's analysis was limited to the nine firms that the FRC lists as being subject to the Audit Firm Governance Code and that are registered with the PCAOB. Staff obtained the INE remuneration information from each firm's most recent

138 *See* FRC Audit Firm Governance Code (Apr. 2022), *available at* https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/audit-firm-governance-code/.

139 Big 4 firms are member firms of the following global networks: Deloitte Touche Tohmatsu Ltd., Ernst & Young Global Ltd., KPMG International Cooperative, and PricewaterhouseCoopers International Ltd.

140 *See* QC 1000.28.

141 *See* FRC Audit Firm Governance Code, paragraphs 29 through 39, *available at* https://media.frc.org.uk/documents/FRC_Audit_Firm_Governance_Code_April_2022_ULZgYEU.pdf.

transparency report. Seven firms disclosed the total annual remuneration paid to each individual who served as an INE, while two firms disclosed a fixed fee for the INE role. For this reason, staff could not calculate the average or standard deviation of remunerations across all INE individuals. Instead, staff calculated the average remuneration for each firm and report the average and standard deviation of average remunerations across firms in Table 2.

(2) Staff converted the reported compensation figures to U.S. dollars using the 5-year average yearly exchange of 1.29096 U.S. dollars to one U.K. pound sterling over 2021 to 2025. *See* Board of Governors of the Federal Reserve System, U.S. Dollars to U.K. Pound Sterling Spot Exchange Rate [AEXUSUK], retrieved from FRED, Federal Reserve Bank of St. Louis, March 26, 2026.

Market research shows that the average compensation per non-employee director at S&P 500 public companies was $336,352 in 2025.[142] Staff note that variation between the responsibilities of an oversight function and a non-employee director function may limit the relevance of this cost reference to some extent. 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. The litigation risk profile is also meaningfully different; while the EQCF role would be new and questions of liability have not been addressed, it seems reasonable to infer, from the relatively low rate of claims by investors against audit firms, that the risk of investor lawsuits is greater for public company directors than it would be for EQCFs.

We are not aware of academic research that bears directly on how the proposed amendment would impact the operation of a firm's QC system. However, to inform the Board's consideration of potential impacts, staff reviewed recent academic research related to the impacts of board member independence in public company oversight, which may be indirectly relevant in that it speaks to the role of independent individuals in governance processes. Academic research cited in the adopting release finds that the level of board independence is associated with certain benefits to public companies, such as improved operating performance and company value, but may also be associated with less competent oversight.[143] More recent research finds mostly positive impacts of board independence but some negative impacts as well. For example, one study finds that increased board independence is positively associated with financial reporting quality.[144] Another study of Taiwanese companies finds that board

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[142] *See* 2025 U.S. Spencer Stuart Board Index (2025), *available at* https://www.spencerstuart.com/-/media/2025/10/ssbi2025/2025-us-board-index.pdf (analyzing 488 DEF-14A proxy statements filed by S&P 500 companies with the SEC from May 1, 2024, through April 30, 2025).

[143] *See*, *e.g.*, Anzhela Knyazeva, Diana Knyazeva, and Ronald W. Masulis, *The Supply of Corporate Directors and Board Independence*, 26 The Review of Financial Studies 1561 (2013); Praveen Kumar and K. Sivaramakrishnan, *Who Monitors the Monitor? The Effect of Board Independence on Executive Compensation and Firm Value*, 21 The Review of Financial Studies 1371 (2008).

[144] *See* Christine Porter and Matthew Sherwood, *The Effect of Increases in Board Independence on Financial Reporting Quality*, 36 Accounting Research Journal 109 (2023).

independence is positively associated with corporate financial performance.[145] Another study finds that board independence is positively associated with company performance during demand downturns.[146] However, another study finds that board independence is negatively associated with annual report readability.[147]

F. Information and Communication

The proposed amendments would simplify requirements when firms disclose written metrics about their audit practice, firm personnel, or engagements. These amendments should reduce costs for audit firms when disclosing written metrics to external parties on a nonpublic basis. External parties receiving the nonpublic written metrics may already understand these metrics and some may be able to request additional information directly from the firm on an as-needed basis. Therefore, we expect these proposed amendments would have limited negative impacts. To the contrary, the proposed amendments may incentivize firms to provide more disclosure of written metrics to external parties on a nonpublic basis because the costs of doing so would be less.

G. Monitoring and Remediation Process

For firms responding to an identified engagement deficiency, the proposed amendments would require evaluation of whether similar engagement deficiencies exist only if the identified deficiency resulted in or could result in: (1) a failure to obtain sufficient appropriate evidence to support the conclusion reached on an engagement or (2) an inappropriate overall conclusion on the subject matter of an engagement.

This proposed amendment would reduce costs to audit firms to operate their QC systems because they would be required to evaluate whether similar engagement deficiencies exist in fewer cases. At the same time, it could also reduce audit quality because some engagement deficiencies may go undetected. However, the impact should not be significant since the proposed amendment scopes out only engagement deficiencies that are less directly related to audit quality. Moreover, to the extent firms are constrained by limited staff resources, focusing firms' attention on engagement deficiencies that directly relate to audit quality may improve audit quality overall. Furthermore, firms would still be required to design,

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[145] *See* Van Le Pham and Yi-Hui Ho, *Independent Board Members and Financial Performance: ESG Mediation in Taiwan*, 16 Sustainability 6836 (2024).

[146] *See* Xiaoyuan Hu, Danmo Lin, and Onur Kemal Tosun, *The Effect of Board Independence on Firm Performance–New Evidence from Product Market Conditions*, 29 The European Journal of Finance 363 (2023).

[147] *See* Dewan Rahman and Muhammad Kabir, *Does Board Independence Influence Annual Report Readability?*, 33 European Accounting Review 1923 (2024).

implement, and operate a monitoring and remediation process to provide a reasonable basis for timely detection of engagement deficiencies.[148]

To inform the Board's consideration of the potential impacts of this proposed amendment, staff calculated the prevalence of Part I.A deficiencies for 2024.[149] The definition of a Part I.A deficiency aligns closely with the first criterion for evaluating whether similar engagement deficiencies exist. The PCAOB does not retain data that would allow staff to reliably estimate the prevalence of engagement deficiencies that would satisfy the second criterion. Accordingly, the prevalence of Part I.A deficiencies provides a lower bound of how often firms may need to perform the evaluation described in the proposed amendment to paragraph .68d. Based on current estimates for the 2024 inspection year, the overall Part I.A deficiency rate was 19% among engagements selected by the PCAOB for inspection on a random basis. In these cases, there were on average four unique Part I.A deficiencies per inspected engagement.[150]

The proposed amendments would also revise the definition of a QC deficiency by permitting compensating quality responses to be taken into account, such that fewer QC observations would qualify as a QC deficiency. By clarifying the scope of the definition, staff believe this amendment would reduce regulatory uncertainty about the existence, and thus the need to remediate, deficiencies in firms' QC systems. At the same time there would be negligible risk to the overall functioning of the QC system because the scope reduction focuses on instances where a quality response was not necessary to achieve the reasonable assurance objective or one or more quality objectives.

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148 *See* QC 1000.59.

149 Part I.A deficiencies are "deficiencies in reviewed issuer audits that were of such significance that the Board believes 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 ICFR." *See* PCAOB Inspection Procedures: What Does the PCAOB Inspect and How Are Inspections Conducted?, *available at* https://pcaobus.org/oversight/inspections/inspection-procedures.

150 Staff used the randomly selected engagements to provide a potentially more representative estimate of the true population-wide deficiency rate. Staff acknowledge that inspection focus areas within each engagement may still have been chosen on a risk-sensitive basis. Staff also acknowledge that the randomly selected engagements are limited to engagements performed by annually inspected firms and therefore may provide a less representative estimate of the deficiency rate among engagements performed by triennially inspected firms. Based on current estimates, the overall Part I.A deficiency rate was 38% in 2024, and the overall average number of unique Part I.A deficiencies was four per engagement among engagements that had at least one Part I.A deficiency.

H. Evaluation of and Reporting on the QC System

The proposed amendments would allow firms to select an annual evaluation date for their QC system evaluation, rather than requiring all firms to evaluate as of September 30. In the adopting release, we noted that a benefit of a fixed September 30 evaluation date is that the PCAOB would have relatively current information available when it selects firms and engagements for inspection. However, we also noted that the evaluation requirement would be less costly to firms if they were able to choose the date, for example because they could choose to use the same evaluation date under QC 1000 and ISQM 1.[151]

Section III.F.1. above summarizes commenters' concerns related to the evaluation date. Overall, commenters have suggested that most firms use a different evaluation date than September 30 that is linked to their fiscal year-end. Commenters argued that changing their evaluation date to September 30 could involve significant challenges. To help inform the Board's consideration of the potential magnitude of these concerns, staff performed an analysis of firms' QC system annual evaluation dates disclosed pursuant to European Union (EU) transparency rules.[152] Figure 2 shows the distribution of firms' existing annual evaluation dates based on their most recent transparency reports.[153] Panel A shows the distribution by month while Panel B shows the distribution by month relative to the month of the firm's fiscal year-end. Panel A shows that 79% (19 ÷ 24) of the firms in our sample use evaluation months other than September (86% (6 ÷ 7) of the annually inspected firms in our sample). Panel B shows that 78% (18 ÷ 23) of the firms in our sample set the month of their evaluation date to be the same as the month of their fiscal year-end (43% (3 ÷ 7) of the annually inspected firms in our sample).

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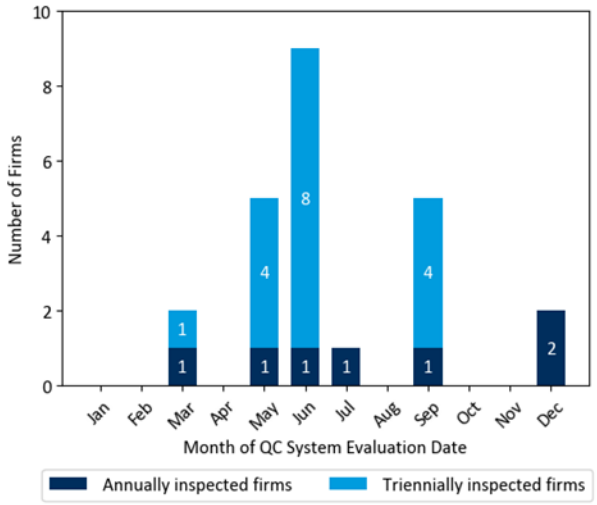
151 *See* PCAOB Rel. No. 2024-005, at 371.

152 Regulation (EU) 537/2014, Article 13, requires audit firms that carry out statutory audits of public-interest entities to make public an annual transparency report after the end of each financial year. The transparency report must include, among other information about the audit firm, an indication of when the last quality assurance review was carried out and a statement by the administrative or management body on the effectiveness of the functioning of the internal quality control system.

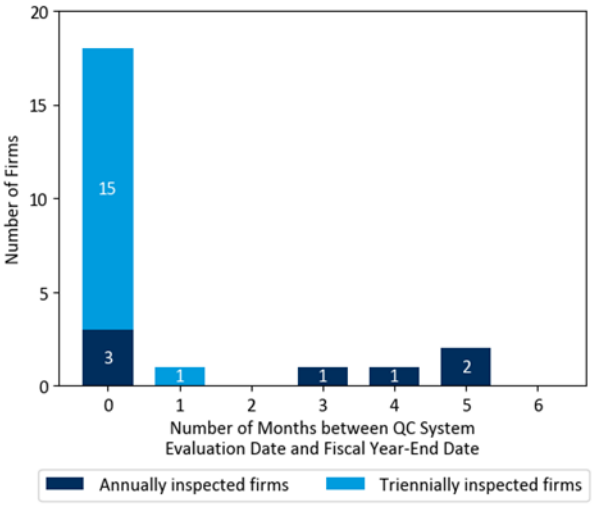
153 Staff searched for transparency reports or audit quality reports for the 100 largest firms by issuer count and identified information regarding QC system evaluations from the reports found. Among the 100 firms, 30 firms published an EU transparency report or audit quality report in recent years, including 24 firms that disclosed QC system evaluation dates. Among the 24 firms, staff identified fiscal year-ends for 23 firms from their transparency reports or other official documents published by the firms.

Figure 2. QC System Annual Evaluation Dates

Panel A: Distribution of QC System Evaluation Dates



Panel B: Months between QC System Evaluation Date and Fiscal Year-End Date



Source: Firm EU transparency reports.

Note: The staff's analysis is based on 24 audit firms that disclosed their QC evaluation dates in their most recent EU transparency reports. Staff could not identify the fiscal year-end for one of these firms and therefore excluded it from Panel B. Registered firms that have issued audit reports for more than 100 issuers during the prior calendar year are subject to annual inspection. Registered firms that have issued audit reports for 100 or fewer issuers during the prior calendar year are required to be inspected at least once every three years. Staff assigned firms as annually or triennially inspected based on their designation as of the time of this analysis.

The proposed amendments would also revise the QC system evaluation conclusions to align more closely with the conclusions in other quality management standards. This proposed amendment would reduce confusion by reducing (but not eliminating) the likelihood that firms reach different conclusions about QC system effectiveness under different QC standards. As discussed in Section III.F.1. above, even if QC 1000 and ISQM 1 were identical in all respects, differences in firm QC systems would remain, including due to variations in applicable professional and legal requirements, the populations of engagements, and the individuals performing such engagements or performing activities within the QC system. As to the QC system evaluation conclusions in particular, conclusions may also differ based on QC 1000's more precise and potentially broader concept of an unremediated QC deficiency (i.e., one for which remedial actions that completely address the QC deficiency have not been fully implemented, tested, and found effective). It may also reduce the cost of a QC system evaluation as firms may be able to leverage, to some extent, the evaluation process they perform under ISQM 1 or SQMS 1 (e.g., when assessing the seriousness and breadth of unremediated QC deficiencies) or perform both evaluations concurrently.

However, the proposed amendments would likely broaden the conditions under which firms would be able to reach favorable conclusions about the effectiveness of their QC system. For example, firms would be able to report that the system was effective, without an "except for" qualification, when there were unremediated QC deficiencies that, individually or in combination, are not severe. Under QC 1000 as originally adopted, this reporting would have been permitted only if there were no unremediated QC deficiencies at all. The presumptions regarding the existence of a major QC deficiency would also be eliminated, affording firms greater latitude when determining whether the QC system failed to achieve the reasonable assurance objective. In either of these cases, firms would have less incentive to remediate QC deficiencies because doing so would not impact the conclusion they report to the PCAOB. However, we acknowledge that firms would still have significant incentive to remediate QC deficiencies for reasons independent of these proposed amendments. For example, firms would still need to consider a variety of factors when assessing the severity of unremediated QC deficiencies, including the persistence of those QC deficiencies. In addition, allowing QC deficiencies to remain unremediated may lead to pervasive or severe QC deficiencies in the future. Furthermore, to the extent QC deficiencies are determined to be Part II deficiencies, firms would still have an incentive to remediate them.[154]

Section III.F.1. above summarizes commenters' concerns related to the evaluation criteria. Commenters suggested that firms could reach a different evaluation conclusion under ISQM 1 compared to QC 1000 and that this could lead to confusion. For example, some firms suggested they may need to report two conflicting conclusions in their EU transparency reports. To help inform the Board's consideration of the potential magnitude of these concerns, staff performed an analysis of QC system evaluation conclusions disclosed pursuant to ISQM 1 and EU transparency rules.[155] Table 3 summarizes firms' conclusions regarding their QC systems in their EU transparency reports. It indicates that 84% (21 ÷ 25) of the firms in our sample concluded that their QC system is effective under ISQM 1. The remaining 16% (4 ÷ 25) concluded that their QC system is effective except for certain matters having "a severe but not pervasive effect." Notably, while no firm concluded that its system was ineffective, some of

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[154] We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's QC system does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures. Moreover, outcome-based management of the remediation and evaluation processes in a way that is not compliant with QC 1000 could itself form the basis for a Part II finding, which should provide another constraint on the extent to which judgment can be used to avoid reaching a negative conclusion.

[155] Staff searched for EU transparency reports or audit quality reports for the 100 largest firms by issuer count and identified information regarding QC system evaluations from the reports found. Among the 100 firms, 30 firms published an EU transparency report or audit quality report in recent years, including 25 firms that disclosed QC system evaluation conclusions.

these firms had a Part II deficiency included in their most recent PCAOB inspection report.[156] However, it bears noting, among other things, that the ISQM 1 evaluation criteria differ from the Board's criteria for finding Part II deficiencies, the timing of the firm's ISQM 1 evaluation may have differed substantially from the timing of the PCAOB's inspection, and it is unclear whether these firms considered their issuer and broker-dealer engagements performed under PCAOB standards when evaluating their QC system under ISQM 1.

Table 3. Number of Firms by QC Evaluation Conclusion

QC Evaluation Conclusion	Firms	Annually Inspected Firms	Triennially Inspected Firms
Effective	21	6	15
Effective except for certain matters	4	1	3
Not Effective	0	0	0
Total	25	7	18

Sources: Firm EU transparency reports.

Note: The staff's analysis is based on 25 audit firms that disclosed their QC evaluation conclusions in their most recent EU transparency reports. Firms reached conclusions about their QC systems that generally followed the conclusions defined in ISQM 1, including "(a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved" ("Effective"); "(b) Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved" ("Effective except for certain matters"); or "(c) The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved" ("Not effective"). Staff assigned firms as annually or triennially inspected based on their designation as of the time of this analysis.

I. Documentation

The proposed amendments simplify the requirements for retention of QC system documentation. This proposed amendment would reduce costs for firms. For example, costs associated with developing IT systems, gathering data, transferring data, and retaining data should be reduced. As this proposed amendment is intended to address specific potential unintended negative consequences, we do not expect it would negatively impact the overall effectiveness of firms' QC systems or our ability to carry out our oversight. For example, we

[156] As required under Sarbanes-Oxley, any QC deficiencies observed during a PCAOB inspection are not included in the public portion of the relevant inspection report when first issued. If a firm does not address to the Board's satisfaction criticisms of, and potential defects in, the firm's QC system within 12 months after the issuance of the PCAOB inspection report, Part II of the report will be issued publicly to include such deficiencies. Accordingly, we are not disclosing the number of these 25 firms whose most recent PCAOB inspection report included Part II deficiencies. However, staff note that these 25 firms' most recent PCAOB inspection reports included an average of four unique Part II deficiencies.

believe permitting firms to maintain documentation of their QC system in the documentation's original system of record should not have any impact on the overall effectiveness of their QC systems.

The proposed amendments would also abbreviate the document retention period from seven to five years. As discussed above in Section III.G., we have heard from firms that the seven-year retention period has presented them with certain challenges. This proposed amendment would address these concerns and thereby reduce the costs for firms to design, implement, and operate their QC system. The shorter retention period would also reduce the amount of information available to firms and to the PCAOB. This could negatively affect firms' ability to analyze the performance of their QC system over time. However, the salience of QC system documentation likely decreases with time and shortening the period by two years should not significantly negatively impact firms' ability to monitor their QC systems or impair PCAOB oversight.

J. Differential Impacts for Firms of Different Sizes

The impact of the proposed amendments on an individual firm will depend on the firm's unique facts and circumstances, including the size of the firm's issuer and broker-dealer assurance practice (e.g., the number of engagements and the amount of auditing required for those engagements, which may vary based on the size or complexity of those engagements). In the adopting release, we noted that the direct costs of QC 1000 would likely depend on the size of the firm and the nature of the firm's audit practice. We noted that firms with larger PCAOB audit practices that already have extensive QC systems in place may benefit from economies of scale or scope when incorporating the new requirements into their existing systems, which would decrease the cost of QC 1000 per engagement. We further noted that firms with larger PCAOB audit practices would be able to distribute fixed implementation costs over a larger number of engagements, while firms with smaller practices would distribute fixed implementation costs over a smaller number of engagements.[157] We also noted that, to the extent that QC 1000 improves compliance with applicable professional and legal requirements, the improvement might be greater with respect to broker-dealer engagements and issuer audits performed by firms other than U.S. GNFs because auditing deficiencies appeared to be more prevalent for these firms.[158] We also noted that, under QC 1000, larger firms were subject to additional requirements meaningfully different from ISQM 1 or SQMS 1, which would increase the overall cost of QC 1000 to these firms.[159]

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157 *See* PCAOB Rel. No. 2024-005, at 354. The letter from TXCPA said that QC 1000, as adopted, imposes disproportionate implementation burdens on smaller firms relative to larger network firms.

158 *See* PCAOB Rel. No. 2024-005, at 341.

159 *See id.* at 355-360.

The proposed amendment to rescind the EQCF requirement would only apply to larger firms and therefore would result in cost savings to larger firms only. By contrast, the proposed amendment related to the QC system design requirements would largely eliminate costs associated with designing a QC system for the design-only firms, resulting in cost savings to design-only firms which, by definition, have a smaller PCAOB audit practice since the services they are providing, if any, would need to be below a substantial role.[160]

Other proposed amendments would apply to all firms. For example, such amendments would allow multiple individuals and non-firm personnel to serve in certain QC system governance roles, allow firms to choose their own QC system evaluation date, and narrow the scope of deficiencies for which firms would be required to evaluate whether similar engagement deficiencies exist. These amendments would reduce the costs of designing, implementing, and operating a QC system in compliance with QC 1000 for all firms. However, the magnitude of these effects may differ between larger and smaller firms. For example, smaller firms may be more likely to share resources with other firms. The ability to use non-firm personnel to serve in certain QC system governance roles may therefore provide more relief to these firms. Some of these cost savings would largely be fixed in nature and would not scale with the firm's size (i.e., the number of engagements or the amount of auditing required for those engagements). For example, the flexibility to choose any QC system evaluation date is largely independent of the number of engagements a firm has. Because smaller firms have fewer engagements to distribute QC system cost savings across, these cost savings could have a more significant impact on smaller firms' profitability and competitiveness. The letter from PICPA said the documentation requirement for design-only firms may impose disproportionate costs. On the other hand, some of the cost savings associated with the proposed amendments would scale with the firm's size and therefore should benefit both smaller firms and larger firms proportionately. For example, the proposed amendment to narrow the scope of deficiencies for which firms would be required to evaluate whether similar engagement deficiencies exist would provide more relief for larger firms in absolute dollars, but because the relief would be proportional to the size of the audit practice, the impact is not expected to be disproportionate.

K. Emerging Growth Company Considerations

The data on EGCs outlined in the most recent EGC white paper, released in May 2025, remains generally consistent with the data outlined in prior EGC white papers.[161] As of the

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[160] In addition to having smaller PCAOB audit practices, design-only firms tend to have fewer accountants. Based on analysis of Form 2 filings and using the design-only and full-implementation firms identified above in Table 1, staff analysis finds that design-only firms have a median (mean) of 30 (122) accountants compared to 123 (781) for full-implementation firms.

[161] *See* PCAOB, *White Paper on Characteristics of Emerging Growth Companies and Their Audit Firms at November 15, 2023* (May 23, 2025), *available at* https://pcaobus.org/resources/other-research-projects ("EGC White Paper").

November 15, 2023, measurement date, PCAOB staff identified 2,599 companies that self-identified with the SEC as EGCs and filed with the SEC audited financial statements in the 18 months preceding the measurement date. Of those 2,599, the 1,458 EGCs with common equity securities listed on a U.S. national securities exchange had a total U.S. market capitalization of $406 billion. These EGCs represented approximately 26% of all exchange-listed companies yet just 0.7% of U.S. total market capitalization. Forty-one percent of EGCs reported no revenue or self-identified as shell companies.

Of the 260 PCAOB-registered firms that audited EGCs:

- 214 firms (or 82%) performed audits for both EGC and non-EGC issuers. Approximately 97% of EGCs were audited by these 214 firms.

- 136 firms (or 52%) were headquartered in the U.S. Approximately 82% of EGCs were audited by these 136 firms.

- While none were design-only firms, design-only firms provided at least 5% of total audit hours on 15 EGC audit engagements.[162]

- 23 firms (or 9%) have withdrawn from PCAOB registration since November 15, 2023. One firm referenced QC 1000 as a reason for withdrawal. One EGC was audited by this firm.

- 15 firms issued audit reports with respect to more than 100 issuers.[163] Approximately 50% of EGCs were audited by these 15 firms.

Any reduction in audit quality arising from the proposed amendments could reduce financial reporting quality, which could result in less efficient capital allocation, higher cost of capital, and less capital formation. This effect could be particularly pronounced for EGCs. EGCs tend to be smaller and have a shorter SEC financial reporting history than the broader population of public companies. Academic research suggests that, for several reasons, smaller public companies tend to exhibit greater information asymmetry between management and

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[162] Source: Form AP filings.

[163] The EGC White Paper counts issuers by reference to audit reports issued during the 18-month measurement period (i.e., May 16, 2022, through November 14, 2023). Therefore, the firms that will be subject to QC 1000's requirements that apply to firms that issued audit reports for more than 100 issuers in the prior calendar may be different from these 15 firms. As noted above, 13 firms are subject to annual inspection as of the time of this analysis.

investors.[164] Accordingly, EGCs are likely to exhibit greater information asymmetry between management and investors and hence the importance of the external audit to investors in enhancing the credibility of EGC financial reporting may be more pronounced.

The proposed amendments would also likely decrease costs incurred by firms to design, implement, and operate their QC systems. Firms could pass part of these cost savings down to their clients, including EGCs, in the form of lower audit fees. EGCs are disproportionately audited by smaller firms. Just over 50% (1,312 ÷ 2,599) of EGCs were audited by firms that had over 100 issuer clients while approximately 12% ((138 + 143 + 30) ÷ 2,599) were audited by firms that had 10 or fewer issuer clients. By contrast, approximately 73% (6,975 ÷ (8,838 + 678)) of non-EGCs were audited by firms that had over 100 issuer clients while approximately 8% ((126 + 179 + 95 + 261 + 143) ÷ (8,838 + 678)) were audited by firms that had 10 or fewer issuer clients.[165] However, because it is unclear whether the proposed amendments disproportionately impact smaller firms, it is also unclear whether EGCs would be disproportionately impacted by cost savings passthrough.

Reduced audit fees could increase capital formation by decreasing the overall regulatory burdens of being a public company (e.g., accounting fees paid during IPO and for annual SEC reporting). Reduced audit fees could also lessen a competitive disadvantage for EGCs in their respective product markets to the extent EGCs compete with companies that are not audited by PCAOB-registered firms. This could increase competition in product markets where EGCs have a less than dominant market share, which is likely the case as EGCs tend to be newer companies. However, we believe any impacts on competition in EGC product markets would likely be modest because audit fees reflect a small percentage—0.5%—of exchange-listed EGCs' revenues.[166]

In general, any new PCAOB standards and amendments to existing standards determined not to apply to the audits of EGCs would require auditors to design and implement differing requirements within their methodologies or policies and procedures with respect to audits of EGCs and non-EGCs, which would create the potential for confusion. This may not be practical in the context of the proposed amendments; while some of the proposed amendments may enable different approaches for audits of EGCs compared to audits of other companies (e.g., evaluating whether similar engagement deficiencies exist), other elements are necessarily firm-wide and cannot easily be differentiated for different types of audits (e.g., the EQCF role and the evaluation date). Even where differentiation is possible, maintaining

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164 *See, e.g.*, Raymond Chiang and P. C. Venkatesh, *Insider Holdings and Perceptions of Information Asymmetry: A Note*, 43 Journal of Finance 1041 (1988); Ravi Bhushan, *Firm Characteristics and Analyst Following*, 11 Journal of Accounting and Economics 255 (1989).

165 *See* EGC White Paper at Figures C.2 and C.3.

166 *See id.* at Figure 18. By contrast, audit fees reflect 0.1% of exchange-listed non-EGCs' revenues.

separate QC system components for EGC and non-EGC audits and separate methodologies may add cost or lead to confusion, and could run counter to the objectives of the QC system. These methodology and QC system differentiation costs would affect at least the 214 firms that audit both EGCs and non-EGCs and that, collectively, audit approximately 97% of EGCs.

Questions

32. With respect to the design and implementation costs associated with the QC 1000 requirements currently under consideration for amendment by the Board, what are the costs firms have already incurred and anticipate incurring, and how have or will those costs impact audit fees? To the extent feasible, please quantify your response and explain your methodology.

33. How would the proposed amendments impact the costs you expect firms will incur to design, implement, and operate a QC 1000-compliant system? To the extent feasible, please quantify your response and explain your methodology.

34. Have the economic considerations fairly considered the potential impacts of the proposed amendments? If not, please describe any other potential economic impacts of the proposed amendments. To the extent feasible, please quantify your response and explain your methodology.

35. Would the proposed amendments have a disproportionate impact on smaller audit firms or EGCs? If so, please describe how. To the extent feasible, please quantify your response and explain your methodology.

36. Are there alternative approaches that would better achieve our regulatory objectives? How would these approaches impact the costs you expect firms will incur to design, implement, and operate a QC 1000-compliant system? To the extent feasible, please quantify your response and explain your methodology.

37. Are there any other studies or data that would inform our analysis of the potential economic impacts of the proposed amendments or potential alternative approaches? If so, please direct us to them and explain how they would inform our analysis.

VI. OPPORTUNITY FOR PUBLIC COMMENT

The Board is seeking comments on the proposed amendments to QC 1000 and on all the other matters discussed in this release. Among other things, the Board is seeking comment on the economic considerations relating to its proposal, including potential costs. To assist the Board in evaluating such matters, the Board is requesting relevant information and empirical data regarding the proposed amendments.

Written comments should be sent by email to comments@pcaobus.org or through the Board's website at www.pcaobus.org. Comments may also be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803. All comments should refer to PCAOB Rulemaking Docket Matter No. 057 in the subject or reference line and should be received by the Board no later than July 9, 2026.

The Board will consider all comments received. After the close of the comment period, the Board will determine whether to adopt final amendments. Any such final rules adopted will be submitted to the SEC for approval. Pursuant to Section 107 of Sarbanes-Oxley, proposed rules of the Board do not take effect unless approved by the SEC. For purposes of Section 107, standards are rules of the Board under Sarbanes-Oxley.

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On the 9th day of June, in the year 2026, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/S/ Phoebe W. Brown

Phoebe W. Brown
Secretary

June 9, 2026

APPENDIX 1 – PROPOSED AMENDMENTS TO QUALITY CONTROL STANDARD (QC 1000)

Language that would be deleted by the proposed amendments is ~~struck through~~. Language that would be added is underlined.

QC 1000, A Firm's System of Quality Control

* * *

The Firm's QC System

.05 A properly conducted *engagement* and the related report enhance the confidence of investors and other market participants in the company's information to which the firm's report relates. The objective of the firm is to design ~~and, if applicable~~, implement, and operate an effective QC system. An effective QC system protects investors by facilitating the consistent preparation and issuance of informative, accurate, and independent *engagement* reports in accordance with *applicable professional and legal requirements*. To accomplish this, an effective QC system consistently provides a firm with reasonable assurance that:

* * *

.06 A firm must design, implement, and operate an effective QC system in compliance with this standard at all times when the firm is required to comply with *applicable professional and legal requirements* with respect to any of the firm's *engagements*,[3] and thereafter through the following *evaluation date*.[4] ~~a QC system that complies with this standard. To design such a QC system, the firm must:~~

~~a. Assign QC-related roles and responsibilities (*see* paragraphs .10–.17);~~

~~b. Establish *quality objectives*, annually identify and assess *quality risks* to the achievement of those objectives, and design *quality responses* to address those risks (*see* paragraphs .18–.57);~~

~~c. Design a monitoring and remediation process (*see* paragraphs .58–.76); and~~

~~d. Document the design of the QC system (*see* paragraphs .81–.86).~~

[3] With respect to firm responsibilities subsequent to the issuance of an audit report, see, for example, AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*; AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*; AS 4101, *Responsibilities Regarding Filings Under Federal Securities Statutes*.

[4] *See* paragraph .77 (requiring evaluation of the effectiveness of the QC system as of ~~September 30~~the *evaluation date*).

.07 The requirement to design, implement, and operate the QC system applies as follows:

~~a. A firm must implement and operate an effective QC system at all times when the firm is required to comply with *applicable professional and legal requirements* with respect to any of the firm's *engagements*,[3] and thereafter through the following September 30.[4]~~

a~~b~~. During the time the firm's QC system is required to be operating effectively, the firm's QC system must operate over any audit, attestation, review, or other work performed under PCAOB standards by the firm, regardless of the level of the firm's participation in such work (i.e., even if the firm plays less than a substantial role).[5]

b~~c~~. A firm that is required to design, implement, and operate its QC system is also required to annually evaluate its QC system as of ~~September 30~~the *evaluation date* and report on that evaluation (*see* paragraphs .77-.80).

~~d. For any time that a firm is not required to implement and operate an effective QC system, this standard will apply to the firm only in regard to the design of the QC system (based on the *quality risks* the firm likely would face if it were to perform *engagements*) as provided in paragraph .06.~~

Note: Any obligations under QC 1000 that exist at the time a firm is no longer required to design, implement, and operate the QC system, such as obligations to evaluate and report on the QC system for previous periods, will continue.

[5] *See* PCAOB Rule 1001(p)(ii).

* * *

Roles and Responsibilities

* * *

.12 The firm must assign other roles and responsibilities with respect to the QC system to ~~*firm personnel*~~individual(s)[5A] who understand and are accountable for their roles and responsibilities and who have the experience, competence, authority, and time needed to enable them to carry out their assigned responsibilities.[6] Such roles should include the following:

a. Operational responsibility and accountability for the QC system as a whole;

b. Operational responsibility for the firm's compliance with ethics and independence requirements;

c. Operational responsibility for the monitoring and remediation process; and

d. If appropriate based on the nature and circumstances of the firm, operational responsibility for other components of the QC system.

Note: ~~Each of the roles identified in subparagraphs a. c. above cannot be shared, but rather must be assigned to only one individual. However, d~~Depending on the nature and circumstances of the firm (including its size and structure) and its *engagements*, the firm (i) may assign one individual to more than one of the roles identified in paragraphs .11 and .12 and (ii) may divide responsibilities of a role identified in paragraph .12 among multiple individuals.

[5A] Such individuals are "associated persons" of the firm. *See* PCAOB Rule 1001(p)(i).

[6] *See* Note in paragraph .44a. of this standard for a description of competence.

* * *

.15 The individual(s) assigned operational responsibility and accountability for the QC system as a whole should:

a. Supervise, within the scope of their assigned responsibilities, the design, implementation, and operation of the firm's QC system in accordance with *applicable professional and legal requirements* and the firm's policies and procedures; and

b. Certify the firm's report to the PCAOB on its annual evaluation of the QC system (*see* paragraph .79).

.16 The individual(s) assigned operational responsibility for the firm's compliance with ethics and independence requirements should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's ethics and independence component (*see* paragraphs .30-.36); and

b. Communicate, on a timely basis, violations of ethics or independence requirements, including personal independence violations, to the individuals assigned (1) operational responsibility for the firm's monitoring and remediation process and (2) operational responsibility and accountability for the QC system as a whole.

.17 The individual(s) assigned operational responsibility for the monitoring and remediation process should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's monitoring and remediation process (*see* paragraphs .58-.76) and the annual evaluation of the QC system (*see* paragraphs .77-.78), including:

(1) The evaluation of the results of the monitoring activities;

(2) The evaluation of whether remedial actions are implemented as designed and operate effectively to remediate *QC deficiencies* and, if not, the taking of timely action until such *QC deficiencies* are remediated; and

(3) The firm's other policies and procedures with regard to monitoring and remediation.

b. Communicate, on a timely basis, to the individuals assigned (1) ultimate responsibility and accountability for the QC system as a whole and (2) operational responsibility and accountability for the QC system as a whole, a description of:

(1) Monitoring activities performed and the results of such activities, including, if applicable, monitoring activities performed by a network;

(2) Identified *engagement deficiencies*~~,~~ and *QC deficiencies*~~, and *major QC deficiencies*~~, including the nature, severity, and pervasiveness of such deficiencies; and

(3) Actions taken to address *engagement deficiencies*~~,~~ and *QC deficiencies*~~, and *major QC deficiencies*~~.

* * *

Governance and Leadership

* * *

Governance and Leadership Specified Quality Responses

.28 ~~If the firm issued audit reports with respect to more than 100 issuers during the prior calendar year, the firm's governance structure should incorporate an external oversight function for the QC system composed of one or more persons who are not partners, shareholders, members, other principals, or employees of the firm and do not otherwise have a commercial, familial, or other relationship with the firm that would interfere with the exercise of independent judgment with regard to matters related to the QC system (an "External QC Function" or "EQCF"). The EQCF should have the experience, competence, authority, and time necessary to enable them to carry out the responsibilities assigned to the EQCF by the firm. The responsibilities of the EQCF should include, at a minimum, evaluating the significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.~~[Reserved]

* * *

Information and Communication

* * *

Information and Communication Quality Objectives

.53 The *quality objectives* established by the firm with respect to information and communication should include the following:

* * *

e. If a firm communicates firm-level or *engagement*-level information with respect to the firm's audit practice, *firm personnel*, or *engagements*, such as firm or *engagement* metrics, to external parties, such information is accurate and not misleading and, with respect to any such metrics that are communicated in writing and made publicly available by the firm, the communication provides an explanation~~explains~~ in reasonable detail of how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.

Note: The communication may provide an explanation either within the communication itself or by referring to a publicly available explanation presented elsewhere, such as the firm's website.

* * *

g. If *other participants* are used in the firm's QC system or *engagements:*

* * *

Note: With respect to *other participants* that are firms, information to be obtained should include the conclusion of the most recent evaluation of the QC system[39] of the *other participant* firm.

[39] The most recent evaluation of the *other participant* firm's QC system refers to that firm's evaluation under paragraph .77 of this standard as of the most recent ~~"~~*evaluation date*~~"~~ (as defined in paragraph .~~77~~A4A), if such an evaluation was performed. If the *other participant* firm did not evaluate its QC system under paragraph .77 of this standard as of the most recent *evaluation date*, then this provision refers to the most recent QC evaluation performed by the *other participant* firm under any professional standard.

* * *

Monitoring and Remediation Process

* * *

Responding to Engagement Deficiencies

.68 When an *engagement deficiency* exists, the firm should:

a. For *engagement deficiencies* relating to in-process *engagements*, take action to address the deficiency in accordance with *applicable professional and legal requirements* (to the extent necessary, before the issuance of the related *engagement* report(s)), such that the *engagement* ~~report(s) are~~is free of significant engagement deficiencies~~appropriate in the circumstances~~;[40A]

* * *

d. For *engagement deficiencies* that resulted or could result in (i) a failure to obtain sufficient appropriate evidence to support the conclusion reached on an *engagement* or (ii) an inappropriate overall conclusion on the subject matter of an *engagement*, ~~E~~evaluate whether similar *engagement deficiencies* exist on:

(1) Other in-process *engagements*, or would arise if remedial action is not taken;

(2) Other completed *engagements*, unless it is probable that the *engagement* report(s) are not being relied upon; and

(3) Work performed by the firm on other firms' *engagements*;

and if so, take actions described in paragraphs .68a.-c. above, as applicable.

[40A] A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence or failed to perform interim review or attestation procedures necessary in the circumstances in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the *engagement*, (3) the *engagement* report is not appropriate in the circumstances, or (4) the firm is not independent of its client. This concept aligns with "significant engagement deficiency" in AS 1220, *Engagement Quality Review* (*see* Notes to AS 1220.12, .17, .18B), but applies to all *engagements* as defined in this standard.

* * *

Evaluation of and Reporting on the QC System

Annual Evaluation of the QC System

.77 Once a firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months~~Annually~~, the firm must annually evaluate the effectiveness of its QC system, based on the results of its monitoring and remediation activities, and conclude, as of ~~September 30 (~~the "*evaluation date*,[44]"~~),~~ that its QC system:

a. Is effective in achieving the reasonable assurance objective~~with no unremediated *QC deficiencies*~~; or

   Note: The firm's QC system is effective in achieving the reasonable assurance objective under paragraph .77a if, as of the *evaluation date*, there are no unremediated *QC deficiencies* other than those that, individually or in combination, are not severe.

b. Is effective in achieving the reasonable assurance objective except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~ that are not *major QC deficiencies*~~; or

c. Is not effective in achieving the reasonable assurance objective~~ (one or more *major QC deficiencies* exists)~~.

Note: An unremediated *QC deficiency* is one for which remedial actions that completely address the *QC deficiency* have not been fully implemented, tested, and found effective.

For this purpose, implementation must be completed as of the *evaluation date* and testing and the determination of effectiveness must be completed no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed).

[44] The selection of the firm's *evaluation date* may be influenced by the nature and circumstances of the firm and its *engagements*, including, for example, the firm's fiscal year-end or the timing of monitoring activities. If the firm changes its *evaluation date,* the firm is required to provide notice of such change on Form QC.

~~**Determining Whether Major QC Deficiencies Exist**~~

.78 In performing the evaluation and reaching the conclusion required by paragraph .77, the firm should evaluate the severity (i.e., the seriousness, including potential impact on the firm's ability to achieve the reasonable assurance objective) and the pervasiveness (i.e., the breadth of impact on the firm's QC system or across the firm's portfolio of *engagements*) of all unremediated *QC deficiencies*, individually and in combination, considering both quantitative and qualitative implications. In evaluating severity and pervasiveness, the firm should consider the following factors: ~~As of the *evaluation date*, the firm must evaluate unremediated *QC deficiencies* to determine whether *major QC deficiencies* exist. The firm's determination should be based on whether either of the presumptions described in paragraph .78a. arises and, when relevant, the factors listed in paragraph .78b.~~

~~a. A *major QC deficiency* would be presumed to exist if there is an unremediated *QC deficiency* or combination of unremediated *QC deficiencies* that:~~

~~(1) Relates to the firm's governance and leadership that affect the overall environment supporting the operation of the QC system; or~~

~~(2) Results in or is likely to result in one or more significant engagement deficiencies[44] in *engagements* that, taken together, are significant in relation to the firm's total portfolio of *engagements* (for example, because of the number of *engagements* or *firm personnel* affected or likely to be affected, the associated revenue or profit, the associated risks, or the relevant industry).~~

~~Note: A firm may rebut the presumption that a *major QC deficiency* exists only if the firm demonstrates, taking into account both factors listed in paragraph .78b. (including all of the listed examples in paragraph .78b.(1)), that the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* does not constitute a *major QC deficiency*.~~

~~b. The following factors are relevant (i) in rebutting a presumption under paragraph .78a., and (ii) for unremediated *QC deficiencies* that do not give rise to a~~

~~presumption under paragraph .78a., in determining whether a *major QC deficiency* exists:~~

~~(1) The severity and pervasiveness of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies*, which may be evidenced by, for example:~~

~~(~~a.~~)~~ The number and nature of components or *quality objectives* directly or indirectly affected;

~~(~~b.~~)~~ The extent to which the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* relates to a component, *quality objective*, or *quality response* that affects the design or operation of other aspects of the QC system;

~~(~~c.~~)~~ The number and pervasiveness of root causes;

~~(~~d.~~)~~ The persistence of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* over time;

e. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in significant engagement deficiencies;

f. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in the need for revisions to *engagement* reports, or is or could be associated with restatements of financial statements or reissuances of company-prepared reports that are the subject of audit or attestation *engagements*;[44A]

~~(e)~~g. With respect to the factors in subparagraphs d.-f., ~~T~~the number and significance (to the firm's portfolio of *engagements*) of *engagements* that are affected by the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* or are likely to be affected in the future in the absence of remediation, and the nature of the effect ~~if the *QC deficiencies* are not remediated~~; and

~~(f) The number of *engagements* that may have unsupported opinions unless additional procedures are performed; and~~

~~(g) The number of *engagements* for which the firm revised and reissued its *engagement* report(s) because, after additional procedures were performed, the financial statements or management's report on internal control over financial reporting was restated or revised; and~~

~~Note: In evaluating each unremediated *QC deficiency* or combination of unremediated *QC deficiencies,* the firm would consider both quantitative and qualitative implications.~~

~~(2)~~h. The ~~extent~~effects of ~~to which~~any remedial actions that have been implemented, tested, and found to be effective.

~~[44] A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB or failed to perform interim review or attestation procedures necessary in the circumstances, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client. *See, e.g.*, Notes to AS 1220.12, .17, .18B.~~

[44A] Company-prepared reports subject to audit or attestation *engagements* include the report on internal control over financial reporting and broker-dealer compliance and exemption reports.

Reporting to the PCAOB

.79 The firm must report annually to the PCAOB on Form QC, in accordance with the instructions to that form, the results of the evaluation of its QC system no~~t~~ later than 60 days after the *evaluation date*~~November 30~~.

.80 The contents of the firm's reporting to the PCAOB must include the following:

a. The firm's conclusion that, as of the *evaluation date*, the firm's QC system:

(1) Is effective in achieving the reasonable assurance objective ~~with no unremediated *QC deficiencies*~~;

(2) Is effective in achieving the reasonable assurance objective, except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~that are not *major QC deficiencies*~~; or

(3) Is not effective in achieving the reasonable assurance objective~~(one or more *major QC deficiencies* exists)~~.

b. If~~,~~ ~~the firm reports a conclusion under paragraph .80a.(2) or paragraph .80a.(3)~~as of the *evaluation date*, the firm has any unremediated *QC deficiencies*, a description of each unremediated *QC deficiency*~~, including each *major QC deficiency*,~~ consisting of:

(1) The requirements of this standard or the *quality objective(s)* to which it relates;

(2) The firm's basis for determining it was a *QC deficiency* as of the *evaluation date*; and

(3) A summary of the remedial actions taken and planned to be taken to address the *QC deficiency*, as well as the timing and the status of such actions, including a summary of actions taken or to be taken by the firm to address the risk that the *QC deficiency* resulted or could result in significant engagement deficiencies~~the issuance of unsupported *engagement* reports~~.

~~c. If a *major QC deficiency* is presumed to exist but the determination was made that there is no *major QC deficiency*, the basis for such determination.~~

* * *

Documentation

* * *

.84 ~~A complete and final set of documentation as required by paragraphs .81-.83 with respect to the 12-month[48] period ended the prior September 30 and any evaluation required as of that date should be assembled for retention not later than December 14 ("QC documentation completion date").~~No later than 14 days after Form QC is filed (or due to be filed, if earlier) ("QC documentation completion date"), the firm should complete the documentation required by paragraphs .81-.83 with respect to the period covered by the firm's annual evaluation and retain it in a manner that permits timely retrieval.

~~[48] In the first year that the firm is required to evaluate its QC system under paragraph .77, the period is from the date on which the firm becomes subject to such requirement to the next September 30.~~

* * *

.86 The firm must retain the documentation of its QC system required under paragraphs .81-.83 and paragraph .85 for five~~seven~~ years from the QC documentation completion date, unless a longer period of time is required by law.

APPENDIX A – Definitions

* * *

.A4A Evaluation date – The date selected by the firm as of which to evaluate its QC system under paragraph .77.

* * *

.A6 ~~Major QC deficiency – An unremediated *QC deficiency* or combination of unremediated *QC deficiencies*, based on the evaluation under paragraph .78, that severely reduces the likelihood of the firm achieving the reasonable assurance objective or one or more *quality objectives*.~~[Reserved]

* * *

.A8 QC deficiency – A *QC observation* that, based on the evaluation under paragraph .72, individually, or in combination with one or more other *QC observations*, evidences:

(1) That the likelihood of the firm not achieving the reasonable assurance objective or one or more *quality objectives* has not been reduced to an acceptably low level;

Note: The likelihood of not achieving the reasonable assurance objective or one or more *quality objectives* would be above an acceptably low level if, for example, a *quality objective* is not established, a *quality risk* is not properly identified or assessed, or a *quality response* is not properly designed or implemented or is not operating effectively and other *quality responses* do not achieve the relevant objective(s).

(2) Noncompliance with requirements of this standard, other than those under "Documentation"; or

(3) Noncompliance with requirements of this standard under "Documentation" that adversely affects the firm's ability to comply with any of the other requirements of this standard.

* * *

APPENDIX 2 –PROPOSED AMENDMENTS TO THE REPORTING RULE AND FORM QC

The Board is proposing amendments to new Rule 2203A and new Form QC. The relevant text of this rule and form is set forth below. Language that would be deleted by the proposed amendments is ~~struck through~~. Language that would be added is underlined.

Rule 2203A. Reporting on the Evaluation of the Firm's System of Quality Control

(a) If a registered public accounting firm is required to perform an evaluation of its QC system under paragraph .77 of QC 1000, *A Firm's System of Quality Control,* the firm must file with the Board a report on such evaluation and notification of any change in the firm's "evaluation date" (as defined in QC 1000.A4A) on Form QC, by following the instructions to that form.

(b) Unless directed otherwise by the Board, the registered public accounting firm must file electronically with the Board through the Board's Web-based system:

(1) ~~such~~each report on the evaluation of its QC system and exhibits thereto ~~electronically with the Board through the Board's Web-based system~~ no later than ~~November 30~~60 days following the ~~relevant "~~evaluation date~~" (as defined in QC 1000. 77).~~; and

(2) each such notification of a change in evaluation date no later than 30 days after the firm's decision to change the evaluation date.

* * *

Form QC - Report on the Evaluation of the Firm's System of Quality Control

GENERAL INSTRUCTIONS

* * *

3. When Report is Due and Considered Filed. Reports on the evaluation of the firm's QC system on this Form are required to be filed each year ~~on or before November 30~~ no later than 60 days following the *evaluation date*. A Form QC is considered filed when the Firm has submitted to the *Board* a Form QC in accordance with Rule 2203A that includes the signed certifications required in Parts III and V of Form QC.

   Reports on this Form are required to notify the Board of a change to the Firm's *evaluation date* and to be filed no later than 30 days after the firm's decision to change the *evaluation date*. A Form QC is considered filed when the Firm has submitted to the

Board a Form QC in accordance with Rule 2203A that includes completed Part I and the signed certification in Part V of Form QC.

4. Period Covered by this Report. The reporting period, which the Firm should enter in Item 2.1, is the period beginning ~~on October 1 of the year preceding the year in which Form QC is required to be filed (or, if a firm's obligation to implement and operate a QC system arises under QC 1000.07a. after October 1 of that year, the date on which that obligation arises), and ending September 30 of the year Form QC is required to be filed.~~ the day after the most recent previous *evaluation date*, except as provided in a. and b. below, and ending on the *evaluation date*.

    a. If a firm has not previously been required to evaluate its QC system under QC 1000, the reporting period begins on the date the firm first incurred an obligation to implement and operate a QC system under QC 1000.06.

    b. If a firm was previously required to evaluate its QC system under QC 1000, but such obligation lapsed because the firm ceased having any obligations under *applicable professional and legal requirements* with respect to one or more *engagements*, the reporting period begins on the date the firm subsequently incurred an obligation to implement and operate a QC system under QC 1000.06.

* * *

PART I – IDENTITY OF THE FIRM AND, IF APPLICABLE, BOARD NOTIFICATION OF CHANGE OF EVALUATION DATE

* * *

Item 1.2 Change to the *Evaluation Date*

a. Indicate, by checking the box corresponding to this item, whether the Firm is filing this Form QC to report a change to the Firm's *evaluation date*; and

b. State the Firm's new *evaluation date*; and

c. Briefly describe the Firm's rationale for making the change.

PART II – EVALUATION OF THE FIRM'S SYSTEM OF QUALITY CONTROL

* * *

Item 2.2 Overall Conclusion on the Effectiveness

Indicate, by checking the applicable box, the Firm's conclusion on whether, as of the *evaluation date*, the Firm's QC system:

a. Is effective in achieving the reasonable assurance objective~~with no unremediated *QC deficiencies*~~; or

b. Is effective in achieving the reasonable assurance objective except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~ that are not *major QC deficiencies*~~; or

c. Is not effective in achieving the reasonable assurance objective~~ (one or more *major QC deficiencies* exists)~~.

Item 2.3 Reporting on Unremediated *QC Deficiencies*

If, as of the *evaluation date*, the firm has any unremediated *QC deficiencies*~~the Firm reports a conclusion under Item 2.2b. or Item 2.2c.~~, provide the number of unremediated *QC deficiencies*:

Note: For purposes of Items 2.3 and 2.4, an unremediated *QC deficiency* is one for which remedial actions that completely address the *QC deficiency* are not fully (i) implemented as of the *evaluation date* and (ii) tested and found effective as of the date Form QC is due under QC 1000.79 (or, if earlier, the date Form QC is filed).

Item 2.4 Reporting on an Unremediated *QC Deficiency*

a. Provide a description of the unremediated *QC deficiency*.

~~b. Indicate by checking the box whether the unremediated *QC deficiency* is:~~

~~1. A *major QC deficiency*~~

~~2. Not a *major QC deficiency*~~

~~c~~b. Indicate, by checking all boxes that apply, the area(s) the unremediated *QC deficiency* relates to:

1. Roles and responsibilities

2. The firm's risk assessment process

3. Governance and leadership

4. Ethics and independence

5. Acceptance and continuance of engagements

6. Engagement performance

7. Resources

8. Information and communication

9. Monitoring and remediation process

10. Evaluation of and reporting on the QC system

11. Documentation

~~d~~c. Furnish, as a correspondingly numbered item in Exhibit 2.4, the following:

1. The quality objective(s), or requirement(s) of QC 1000, to which the unremediated *QC deficiency* relates.

2. The Firm's basis for determining it was a *QC deficiency* as of the *evaluation date*.

3. A summary of the remedial actions taken and planned to be taken to address the *QC deficiency*, as well as the timing and the status of such actions, including a summary of the actions taken and to be taken by the Firm to address the risk that the *QC deficiency* resulted or could result in significant engagement deficiencies~~the issuance of unsupported opinions~~.

~~Item 2.5 Reporting on a Presumed *Major QC Deficiency*~~

~~If a *major QC deficiency* is presumed to exist, as described in QC 1000.78, but the determination was made that there is no *major QC deficiency*, furnish, as Exhibit 2.5, a narrative describing the firm's determination pursuant to the Note to paragraph .78a.~~

PART III – INDIVIDUAL(S) RESPONSIBLE FOR THE SYSTEM OF QUALITY CONTROL; CERTIFICATION

* * *

Item 3.2 Certification of the Report on the Evaluation of the Firm's QC System

Furnish, as Exhibits 3.2.a and 3.2.b, respectively, statements signed by each of the individuals identified in Item 3.1.a and 3.1.b in the following form:

I, [identify the certifying individual], who have been assigned [ultimate/operational] responsibility and accountability for [Firm]'s quality control system (QC system) as a whole, certify that:

1. I have reviewed this report on Form QC on the evaluation of [Firm]'s quality control system (QC system) as of [evaluation date]~~September 30,~~ [year];

2. Based on my knowledge, the disclosures made in Part II of this form are complete and accurate in all material respects; and

3. [The Firm's other certifying officer(s) and] I [are/am] responsible and accountable for [Firm]'s QC system as a whole and have:

   (a) Designed, or caused to be designed under [my/our] supervision, the Firm's QC system to ensure that it meets the reasonable assurance objective specified in QC 1000, *A Firm's System of Quality Control;*

   (b) Evaluated the effectiveness of the Firm's QC system and presented in this report [my/our] conclusions about the effectiveness of the QC system as of [evaluation date]~~September 30~~, [year]; and

   (c) Disclosed, based on such evaluation, all unremediated QC deficiencies (as defined in QC 1000) of which I am aware.

Date:

[Signature]

[Title]

Note 1: Other than the insertion of the Firm name and the name and role of the signing individual, Exhibits 3.2.a and 3.2.b must be in the exact words contained in this instruction.

Note 2: If more than one individual is identified in Item 3.1.a or Item 3.1.b, Exhibits 3.2.a or 3.2.b, as the case may be, must be signed by each such individual. If the same individual is identified in Items 3.1.a and 3.1.b, he or she may sign a single certificate indicating both capacities.

Note 3: Exhibits 3.2.a and 3.2.b may be provided in a form (e.g., pdf) that shows a manual signature, or may be signed and retained in the same manner as provided in Rule 2204.

* * *

PART VII – EXHIBITS

To the extent applicable under the foregoing instructions or the *Board's rules*, each Form QC must be accompanied by the following exhibits:

Exhibit 2.4 Reporting on an Unremediated *QC Deficiency* in Item 2.4.1

~~Exhibit 2.5 Reporting on a Presumed *Major QC Deficiency* in Item 2.5~~

Exhibit 3.2.a Certification of the Report on the Evaluation of the Firm's QC System by the individual(s) assigned ultimate responsibility and accountability for the Firm's QC system as a whole

Exhibit 3.2.b Certification of the Report on the Evaluation of the Firm's QC System by the individual(s) with operational responsibility and accountability for the Firm's QC system as a whole

Note: Where an exhibit consists of more than one document, each document must be numbered consecutively (e.g., Exhibit 3.2.a.1, Exhibit 3.2.a.2, etc.), and the firm must provide a list of the title or description of each document comprising the exhibit.

APPENDIX 3 – PROPOSED OTHER AMENDMENTS

Language that would be deleted by the proposed amendments is ~~struck through~~. Language that would be added is <u>underlined</u>.

Form 1 - Application for Registration

1. The definitions in the *Board's rules* ~~and in QC 1000, A Firm's System of Quality Control,~~ apply to this form. Italicized terms in the instructions to this form are defined in the *Board's rules* ~~or QC 1000, as the case may be~~. See Rule 1001.

* * *

3. In addition to these instructions, the *rules* contained in Section 2 of the *Board's rules* govern applications for registration~~, and QC 1000 addresses the responsibility of a *registered public accounting firm* to design and, when applicable, implement and operate an effective QC system for its *engagements*~~. Please read these *rules*~~, QC 1000,~~ and the instructions carefully before completing this form.

* * *

~~Item 4.2 Design of the Firm's System of Quality Control~~

~~Indicate, by checking the applicable box, whether the *public accounting firm* has designed a QC system in accordance with QC 1000:~~

~~____ Yes.~~

~~____ No.~~

* * *

Form 2 - Annual Report Form

* * *

~~Item 3.1A The Firm's System of Quality Control~~

~~a. Indicate, by checking the applicable box, whether the firm has designed a QC system in accordance with QC 1000:~~

~~____ Yes.~~

~~____ No.~~

~~b. Indicate, by checking the applicable box, whether the firm was required, at any time during the reporting period, to implement and operate an effective QC system in accordance with QC 1000:~~

~~____ Yes.~~

~~____ No.~~

* * *