CFA Institute

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August 31, 2026

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

Re: PCAOB Rulemaking Docket Matter No. 057

Dear Chair Logothetis:

CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms* ("Revision of QC 1000", "Supplemental Request" or "Supplemental Request for Comment").

CFA Institute is providing comments on the Supplemental Request consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protection. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures and the related audits provided to investors and other end users are of high quality. Our advocacy position is informed by our members, who invest both locally and globally.

[1] With offices in Charlottesville, VA; New York; Washington, DC; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 200,000 members, as well as 157 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org, follow us on LinkedIn, or subscribe to our YouTube channel.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is composed of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

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OVERARCHING OBSERVATIONS

The Final Rule: Years in the Making – CFA Institute has commented throughout the development of QC 1000, *A Firm's System of Quality Control ("QC 1000")*, and our support has been consistent. We supported (May 2020 response) modernization of the PCAOB's quality control standards in response to the Board's December 2019 concept release; we asked the Board to prioritize modernization of the interim quality control standards drawn from the profession in 2003 in our January 2022 letter to the newly appointed Board; we urged the SEC to approve the final standard in 2024 because it delivers precisely that modernization; and in September 2025 we opposed a blanket delay of the new standard's effective date. After more than six years of rulemaking and implementation activity, revisiting fundamental provisions of the standard now, when investor views do not appear to have not changed, diminishes the credibility of the PCAOB's due process.

We recognize that the composition of the Board has changed substantially since QC 1000 was adopted: nearly the entire Board has turned over, one appointed member was just seated – approximately six months after appointment and after this Supplemental Request was issued – and the newer members have served only briefly prior to the release of the Supplemental Request. What has not changed is the evidence.

Our investor perspective, as reflected in our comment letters and member surveys, remains consistent with the views we have expressed throughout the rulemaking process that produced QC 1000. The Supplemental Request identifies no direct evidence on the investor-protection effects of rescinding the provisions investors specifically supported during the development of the safeguards in QC 1000. When fundamental provisions are revisited so soon after adoption, without new evidence and following implementation concerns and requests from the audit firms and firm-related organizations across the profession, stakeholders may reasonably question whether the outcome reflects new evidence or a change in policy preferences. The strongest response to that concern is to demonstrate, with evidence, the case for each proposed change.

Given that most Board members are new to their roles, we believe the case for fuller comment periods, direct investor outreach, and advisory group engagement is even stronger, not weaker.

A Compressed Comment Period, Concurrent with Major SEC Proposals – Additionally, as we recently noted to the PCAOB staff and in our comment letter to the SEC, the 20-business-day comment period overlapping substantially with key proposals such as the Commission's semiannual reporting proposal, which would permit optional semiannual reporting, does not allow for sufficient time for investors to respond in a meaningful way to this proposal.

This is made more difficult by the fact that this proposal is written in technical audit terminology rather than in a manner readily consumable by investors (i.e., discussing the effects of these changes). The document is 103 pages with 37 numbered questions. The compressed period also did not allow time for roundtables, member surveys or advisory group discussions that would ordinarily inform meaningful investor input on changes of this significance. Taken together, a

condensed period, a release written in the language of auditors rather than investors and no discussion of investor engagement in the proposal diminishes the credibility of the Board's due process with the very constituency its mission directs it to protect.

Investor Outreach and Engagement – Investors are the end users of audited financial statements and the constituency the PCAOB is charged to protect; the Board's outreach should reflect that distinct role. We ask the Board to identify any direct outreach it has conducted with investors or investor organizations before or in connection with the Supplemental Request. This is particularly important in relation to the External QC Function ("EQCF")[3], which reflects the independent-oversight mechanisms CFA Institute supported in our May 2020 comment letter and forms part of the QC 1000 framework we urged the SEC to approve in July 2024. We do not find that the PCAOB has made a compelling case that investors requested the changes presented in this Supplemental Request. As we told the Board in January 2022, outreach should be active rather than passive and should explain proposed changes in terms of their effects on audits, financial statements and the companies in which investors put capital at risk.

Our Response is Limited in Scope Because of the Shortened Due Process Period – Given the 20-business-day comment period, our response addresses each of the areas covered by the Supplemental Request's 37 questions, but the depth of our commentary varies. We comment in detail on the amendments we believe carry the greatest potential consequence for investors and address other items more briefly than a standard comment period would allow. We would welcome the opportunity to supplement these comments if the Board extends the comment period or provides the additional economic analysis requested herein.

We have summarized the most significant concerns by groups of questions in the table that follows in the body of this letter. The **Appendix** contains our summary of the economic analysis.

The Economic Analysis – We believe it would be useful for the PCAOB to publish a summary of its economic analysis in a form understandable to investors, with a particular focus on the changes in the analysis since the adoption of the rule in May 2024. Investors need to understand what, if anything, was incorrect in the prior economic analysis or what new evidence now supports a different conclusion. In the **Appendix** we have included a brief, more investor-friendly summary of the approximately 30-page economic analysis in the Supplemental Request. We provide commentary on the economic analysis in the body of this letter as well as in the **Appendix**.

[3] External QC Function ("EQCF"): 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. *Source:* PCAOB, *QC 1000, A Firm's System of Quality Control*, para. 28.

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OBSERVATIONS ON THE PROPOSED AMENDMENTS

The proposed amendments are framed principally as measures to streamline implementation and reduce costs for auditors. However, closer consideration shows that several would have significant investor-protection consequences and are inconsistent with provisions investors supported in QC 1000 as adopted in May 2024. We summarize those concerns and their relative priority in the table below.

CONCERN-TO-QUESTION INDEX

#	INVESTOR CONCERN	MOST RELEVANT QUESTIONS	PRIORITY
1	Loss of Independent Oversight of the Largest Firms (External QC Function)	Q8 – Q12	Very High
2	Accountability for QC Roles Amid Greater Flexibility	Q4 – Q7	High
3	Narrowed Trigger for Detecting Systemic Engagement Deficiencies	Q15 – Q17, also relevant to Q22	High
4	Compensating Responses May Mask Genuine QC Deficiencies	Q18, also relevant to Q22 and Q23	High
5	QC Evaluation Rigor and Comparability	Q21 and Q24, Q26 and Q27	High
6	Comparability and Usefulness of Public Audit-Quality Metrics	Q13 and Q14	Moderate
7	Preserving the PCAOB's Oversight Visibility and Adequacy of Form QC	Q25, also relevant to Q30 and Q31	Moderate
8	Documentation Retention, the Inspection and Enforcement Record	Q28 and Q29	Moderate
9	Comparability Risk from Firm-Selected Evaluation Dates	Q19 and Q20, also relevant to Q25	Low
10	Readiness of Firms Before Taking on Issuer Engagements	Q1 – Q3, also relevant to Q30 and Q31	Low
11	Cost, Scalability, Smaller Firms, EGCs and Audit Fees	Q32 – Q37, with links back to Q2, Q7 – Q10, Q17, Q19, Q20, Q28 and Q29	Cross-Cutting (not separately ranked)

#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
1	**LOSS OF INDEPENDENT OVERSIGHT OF THE LARGEST FIRMS (EXTERNAL QC FUNCTION)**	Investors cannot directly observe the work of the auditor, even after the fact. As such, investors cannot verify the quality of an auditor's work, which is why an independent perspective from outside the firm matters most at the largest firms where the greatest number of investors are at risk. CFA Institute has viewed, and continues to view, the EQCF as the clearest structural safeguard against the commercial and network pressures and interests that can affect a firm's own judgments about its quality-control system. ***We are concerned that rescinding the EQCF requirement removes that safeguard while, at the same time, the audit firms and the PCAOB seek to move the focus of, by placing greater emphasis on, audit inspections to the firm rather than the engagement level[4] and private-equity ownership and commercial pressure in the audit profession are increasing, not decreasing.*** The key question is whether PCAOB inspections, internal governance, audit committee oversight, and existing advisory mechanisms provide a sufficient substitute. We do not think they do. The Supplemental Request notes that nine of the 13 annually inspected firms already have an independent individual serving in an advisory role. That advisory role is not equivalent to EQCF, which carries a defined responsibility to evaluate the firm's QC conclusions. However, the prevalence of such arrangements suggests that many of the firms most likely to be affected already use external advisers and that the incremental burden of establishing the mandated function may be less substantial than the proposal implies. Retaining both independent QC oversight and robust engagement-level inspections also serve firms and individual partners by helping identify and contain problems before an engagement-level failure becomes a broader reputational or financial event for the firm.	**Q8 – Q12**

[4] See Demetrios Logothetis, Chairman, PCAOB, Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, remarks at the PCAOB Open Board Meeting (9 June 2026).

#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
		Our opposition to rescission rests on a record that predates QC 1000. In our May 2020 response to the Concept Release related to this docket, we said that the governance and leadership objectives of a QC system are most likely to be achieved if firm leaders are held accountable through independent oversight of that system. In our January 2022 letter to the newly appointed PCAOB Board, we asked for structural mechanisms to promote independent oversight of a firm's QC system and to mitigate commercial interests over audit quality. The EQCF is the provision of QC 1000 that gives effect to those requests. The Supplemental Request provides no direct evidence either of the investor-protection consequences of rescinding the EQCF or of the cost savings that rescission would produce. On the consequences of rescission (i.e., what removing the EQCF would do to audit quality and to the Board's oversight) the PCAOB acknowledges it is not aware of any evidence with direct relevance to the consequences or cost savings. On cost, the only data offered is compensation benchmarks: UK independent non-executive director pay and S&P 500 non-employee director compensation, which the Board itself concedes are imperfect proxies for the EQCF role. A benefit case without evidence, paired with a proxy-based cost case, is not an economic analysis on which a safeguard should be rescinded. The practical effect of rescission would leave judgments about the largest firms' QC systems entirely to the firms themselves – restoring the very self-assessment the EQCF was adopted to guard against. The tone from the top on ethical issues affects firms' credibility and their ability to convince investors they can do the right thing when left to their own judgment. Recent ethical failures at firms such as KPMG Australia[5,6] highlight the need for an external perspective inside audit firms.	

[5] See KPMG's May 2026 statement (KPMG Australia investigation into whistleblower allegations) and June 2026 statement (Acknowledgement of today's announcement by the Commonwealth Department of Finance) as well as discussion of events at:'Egregious and Inexplicable': KPMG's Day of Reckoning | The Bloomberg Australia Podcast - YouTube.

[6] KPMG Australia is a PCAOB registered firm. https://pcaobus.org/resources/auditorsearch/firms/?firmid=1020&registrationid=1020

#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
		The EQCF requirement applies only to firms that issue audit reports for more than 100 issuers – approximately a dozen firms. The Board's own figures show the concentration at stake. The five audit firms that audit more than 500 issuers are responsible for auditing companies that account for approximately 98% of U.S. public market capitalization (Supplemental Request, Section III.C). We are concerned that rescinding the EQCF requirement would remove that safeguard at a time when the PCAOB is considering placing greater emphasis on firm-level rather than engagement-level inspections, while evolving ownership structures and continuing commercial pressures heighten the importance of independent oversight. If the Board nonetheless concludes that some relief is necessary, the better of its two alternatives is to retain the EQCF as adopted for firms auditing more than 500 issuers (Q9): the defined, independent evaluation of the firm's self-assessment would survive intact at the five firms where nearly all U.S. public market capitalization sits. We would not support the other alternative, reverting to the oversight function as originally proposed in 2022 (Q11). That role carried no defined duty to evaluate the firm's QC conclusions – the very check the EQCF was adopted to provide. Retention for the largest audit firms under Q9 remains a second-best outcome, and outright rescission would be the worst of all. The economic case offered for rescission does not withstand scrutiny. The CAQ represents the audit profession, and its submission is based on estimates supplied by firms subject to the requirement. Those estimates should be closely scrutinized and independently validated, particularly given the methodological limitations. We address that submission further under Observations on the Economic Analysis below. It seems a stretch to suggest that eliminating the cost of the individuals performing the EQCF, spread across thousands of audits, would meaningfully reduce audit fees. Any such saving would need to pass from the firm to the audited company and then to investors – a multi-step pass-through for which the Board offers no evidence. We therefore ask the Board to compute and publish, for each of the largest firms, the cost of EQCF per audit performed. We	

#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
		expect that figure to be modest. Publishing it – together with the number of firms affected and the market capitalization they audit – would allow investors to weigh the claimed burden against the value of independent oversight.	
2	**ACCOUNTABILITY FOR QC ROLES AMID GREATER FLEXIBILITY**	CFA Institute supports giving firms flexibility to assign QC roles to the most qualified individuals and to divide responsibilities where doing so improves the work performed. We believe, however, that there remains a need for an ultimate point of accountability. We do not, however, support assigning QC roles to personnel outside the firm, and we make a distinction the proposal does not: independent oversight of the QC system – the board-level role performed by the External QC Function – can and should sit outside the firm, but the management and operational QC roles addressed by these amendments should remain within it. Individuals outside the firm may have conflicting interests, and because these responsibilities are not their full-time job, they cannot provide the day-to-day ownership the roles require. Our preference is for QC responsibility that is centralized and appropriately delegated, not dispersed. When everyone owns something, no one owns something. The Board's own economic analysis concedes both risks we identify. It acknowledges that where responsibilities are divided, subcomponents may inadvertently never be assigned, and that an individual outside the firm may have incentives that are not aligned with the firm's interests. Investors need assurance that accountability is not diffused when responsibilities are divided. Our specific request is that whenever a QC role is divided among multiple individuals, the firm's reporting to the PCAOB identifies three things: 1) who holds ultimate responsibility and accountability for the QC system as a whole; 2) who is accountable for each function, such as ethics, independence, monitoring, and remediation; and 3) the scope of each individual's assigned responsibilities, so that no part of any role is left unassigned. This is particularly important given the PCAOB's stated intention to pilot a QC 1000-focused inspection approach in 2027, with a full rollout in 2028[7]. As required under Sarbanes-	**Q4 – Q7**

[7] See note 4.

#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
		Oxley, Part II of a PCAOB inspection report – which contains criticisms of, and potential defects in, a firm's system of quality control – is not included in the public portion of the report when first issued. If the firm does not address those criticisms to the Board's satisfaction within 12 months of the report's issuance, Part II is issued publicly to include such deficiencies (Supplemental Request, footnote 156, page 77).	
3	**NARROWED TRIGGER FOR DETECTING SYSTEMIC ENGAGEMENT DEFICIENCIES**	The proposed amendment would limit the requirement to look for similar deficiencies on other engagements to only those deficiencies that resulted or could result in a failure to obtain sufficient appropriate evidence to support the conclusion reached, or an inappropriate overall conclusion on the subject matter of the engagement. We understand the Board's interest in reducing the cost of evaluations unlikely to change an audit outcome. Our concern, however, is that a deficiency that appears immaterial on the engagement where it was first identified can still be a symptom of a firm-wide QC weakness. A narrower trigger reduces the number of opportunities a firm has to find that pattern before it results in an audit failure. We are also concerned by the Board's stated intention to place greater emphasis on firm-level rather than engagement-level inspections. Investors invest at the engagement level, and firm-level inspection findings on quality control (Part II) are not publicly disclosed unless the firm fails to remediate them satisfactorily within 12 months. Accordingly, the shift moves inspection results into a space (i.e., the firm level) investors cannot see the results. Narrowing firm-level deficiency detection at the same time compounds the problem: the Board proposes to rely more heavily on firm-level conclusions while weakening the very evaluation that supports them, which raises questions about whether those conclusions can be relied upon. Two further points: First, the Board's own engagement-level inspection data shows a 19% Part I.A deficiency rate among randomly selected engagements in 2024 (Supplemental Request, page 73) and, as we observed in our September 2025 letter, deficiency rates are not materially better than in the early years of the inspection program more than twenty years ago. This is not the moment to narrow the lens through which firms look for systemic problems.	**Q15 – Q17, also relevant to Q22**

#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
		Second, monitoring and remediation works as a feedback loop. A deficiency found in one engagement should prompt the firm to ask whether the same problem exists in other engagements and why it occurred, with the answers feeding back into the firm's risk assessment. We have supported that discipline since our 2016 letter to the IAASB and our May 2020 letter (both letters urged that QC standards embed root cause analysis of identified deficiencies and act on the findings). Narrowing the trigger breaks the feedback loop. A deficiency no longer requires a similar deficiency evaluation. Those questions are asked less frequently or systematically, reducing opportunities to identify recurring patterns – resulting in fewer opportunities for systemic improvement. Separately, we support the Board's stated intention, confirmed in Section III.H of the Supplemental Request, to retain the requirement to inspect at least one completed engagement for each engagement partner on a cyclical basis; it is one of the few mechanisms that directly links QC oversight to individual engagement-level accountability.	
4	**COMPENSATING RESPONSES MAY MASK GENUINE QC DEFICIENCIES**	The proposed amendment to the definition of a QC deficiency would allow a firm to conclude that no deficiency exists where other quality responses – when considered together – achieved the relevant objective, even if one specific response failed. We do not object to the principle that overlapping controls should be considered realistically. We are concerned, however, that without a documented, inspectable basis for concluding that a "compensating response" actually operated effectively, this amendment risks becoming a way to explain away deficiencies rather than a genuine test of whether investors remain protected. QC 1000.82 already requires the firm to document its evaluation of QC observations and the basis for each determination of whether a QC deficiency exists. We ask the Board to confirm that this requirement applies with full force to a conclusion that compensating responses achieved the relevant objective, and to specify what documented evidence suffices, so that the judgment remains subject to meaningful PCAOB inspection. Documentation also distinguishes a response designed to address the risk from an unrelated procedure that happened to address the risk; a firm that happened to cover an assertion through an unrelated procedure has not demonstrated that its QC system worked. Without these requirements, the amendment weakens rather than clarifies the definition of a QC deficiency.	**Q18, also relevant to Q22 and Q23**

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<tr>
<td>5</td>
<td>QC EVALUATION RIGOR AND COMPARABILITY</td>
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The proposal would revise the three possible conclusions a firm can reach about its QC system's effectiveness.

The proposal does two distinct things.

First, the amendment itself keeps a three-tier structure but redraws every boundary in an audit firm's favor:
1) an unqualified “effective” conclusion would become available even where unremediated QC deficiencies exist, provided none is judged severe;
2) the middle tier would be retained, but recast in ISQM 1 terms as deficiencies having a “severe but not pervasive effect”; and
3) the “major QC deficiency” concept would be eliminated, together with the presumptions that automatically escalate governance-and-leadership and portfolio-significant deficiencies, and the demanding standard required to rebut them (QC 1000.77-.78 as proposed).

Second, and separately, the Board asks whether it should instead adopt a binary effective/not-effective framework (Q26), which would remove the middle tier altogether.

<table>
<tr><th>Existing Categories (QC 1000.77)</th><th>Proposed Categories</th></tr>
<tr><td>Effective
with no unremediated QC deficiencies</td><td>Effective
available even with unremediated QC deficiencies judged not severe</td></tr>
<tr><td>Effective
except for one or more unremediated QC deficiencies that are not major QC deficiencies</td><td>Retained under the amendment:

Effective
except for unremediated QC deficiencies with a severe but not pervasive effect (proposed .77b).

Removed only under the separate binary alternative (Q26)</td></tr>
<tr><td>Not effective
deficiencies so severe and pervasive that the system does not provide reasonable assurance</td><td>Not effective</td></tr>
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We believe the existing three-tier structure allows a firm to identify a QC system with severe but not yet pervasive unremediated deficiencies, conveying meaningfully more information than a binary conclusion would. The middle category operates as an early-warning signal: it allows such a
</td>
<td>Q21 and Q24, Q26 and Q27</td>
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		problem to be identified, escalated and remediated before the system fails. For that reason, we would oppose the binary alternative on which the Board seeks comment (Q26). The release itself cites the IAASB staff's view that a purely binary conclusion "did not promote a sufficiently thoughtful consideration" of QC system effectiveness and acknowledges that a binary approach could reduce both the rigor of the evaluation and the information the conclusion conveys to the firm and the PCAOB. We agree. Firm-level QC deficiencies matter even more, not less, if the PCAOB places greater emphasis on firm-level inspections, and we have never viewed the initially non-public treatment of Part II inspection findings as sufficient for investors. We are concerned about recharacterizing deficiencies as less severe as it means serious QC problems may receive less prominent escalation and result in less informative severity signaling. That concern is not hypothetical: the Board's own economic analysis acknowledges that the proposed changes would broaden the conditions under which firms can reach favorable conclusions and could weaken firms' incentive to remediate, since remediation would no longer change the conclusion reported. We acknowledge, and support, the retention of the requirement to report all unremediated QC deficiencies on Form QC regardless of the conclusion reached. The conclusion is the signal on which the Board relies in performing its oversight of the audit firm. Investors depend on that oversight. As such, we do not support it being softened. Any change to this framework should be judged by whether it preserves that early warning signal. We ask the Board to: ▪ reject the binary alternative (Q26); ▪ retain a conclusion structure in which an unqualified "effective" means no unremediated QC deficiencies; ▪ retain the escalation presumptions in some form; and ▪ clarify how serious QC issues that fall short of overall ineffectiveness will be escalated and communicated if the "major QC deficiency" concept is removed. To the extent the changes are justified by closer alignment with ISQM 1 and SQMS 1, we repeat the caution from our May 2020	

		letter: ***standards of high quality are more important than uniform standards***, and alignment is not, by itself, a sufficient basis for reducing the information a firm's evaluation conveys to the Board and to investors.	
6	**COMPARABILITY AND USEFULNESS OF PUBLIC AUDIT-QUALITY METRICS**	We refer the Board to our comment letters to the PCAOB related to the Firm and Engagement Metrics proposed rule (August 2024, Docket 041) and to the SEC during its consideration of the final rule (January 2025, final rule and February 2025, supplement). Overall, the existing firm-level audit quality metrics are neither comparable nor particularly decision-useful for investors. Investors invest at the engagement level – they do not invest in the audit firm. Investors accordingly want meaningful engagement-level metrics, and this revision misses the point with respect to investor protection. The amendment has two parts. It confines the explanation requirement to metrics the firm makes publicly available, and it permits the explanation to be given by reference to the firm's website. We do not object to the first part. Recipients of non-public communications, such as regulators and audit committees, can request explanations themselves (Q13). Our concern is the second part (Q14). While we do not object to allowing firms to explain publicly disclosed metrics by reference to their own website rather than repeating the explanation every time the metric is communicated, an explanation that was accurate on the day it was published is of little use to an investor comparing metrics two or three years later. Simplification of posting should not come at the expense of transparency or comparability over time within a single firm. We therefore ask the Board to require that any report containing a publicly disclosed metric include, in the report itself, a hyperlink to the explanation of how that metric is calculated, maintained on the firm's own website. That hyperlink must remain stable, archived and year specific. An investor should be able to return to a report from, say, 2020, follow the link, and see the methodology as it stood at that time. When a metric or its methodology changes from one year to the next, the change must be prominently identified in the base report itself – not only at the linked explanation – together with a description of the change and a presentation of the comparable prior year metric. As we have consistently said to the SEC, comparability is the lifeblood of investment analysis.	**Q13 and Q14**

		The position articulated here is broadly consistent with our 2016 letter to the IAASB on transparency reporting about audit quality. Our May 2020 letter urged the Board to complete its audit quality indicators project, and our 2018 member survey (report) found that disclosure of audit quality indicators was among the factors investors rated most important to the value of an audit.	
7	**PRESERVING THE PCAOB'S OVERSIGHT VISIBILITY AND ADEQUACY OF FORM QC**	Form QC is not made public, but it is the principal mechanism through which the PCAOB itself maintains visibility into a firm's QC system between inspections. Form QC is new with QC 1000; no equivalent existed under the interim standards, and its contents may be shared with the SEC and used in enforcement proceedings, which is precisely why it matters to investors despite its non-public status. Measured against that, the conforming amendments to Rule 2203A and Form QC are a mixed picture. We support what is retained and extended: the proposal requires firms to report the number and a description of every unremediated QC deficiency – the requirements or quality objectives to which it relates, the firm's basis for the determination, and the remediation actions taken and planned with their status regardless of the conclusion reached, including under an unqualified "effective" conclusion, and adds notification of any change in evaluation date within 30 days with the firm's rationale. Two structured elements would, however, be lost with the removal of the "major QC deficiency" concept: the requirement to flag whether each unremediated deficiency is major, and the narrative required where a major deficiency is presumed but determined not to exist. Both give the PCAOB a severity signal it would no longer receive. We ask the Board to preserve equivalent signals under the revised framework (Q25): firms should indicate, for each unremediated QC deficiency, whether the firm assessed it as severe, and should explain the basis for any determination that severe deficiencies do not, individually or in combination, render the QC system not effective. We do not support any weakening of Form QC reporting.	**Q25, also relevant to Q30 and Q31**

8	**DOCUMENTATION RETENTION, THE INSPECTION AND ENFORCEMENT RECORD**	We do not object to allowing firms to retain QC documentation within their original systems of record, provided it remains promptly retrievable. As to the retention period, however, we believe the Board must reconsider the proposed reduction from seven years to five, or to explain why QC documentation should be retained for a shorter period than the audit documentation to which it relates. PCAOB AS 1215[8] and SEC Rule 2-06 of Regulation S-X[9] each require engagement documentation to be retained for seven years; under a five-year QC period, engagement workpapers would remain available to inspection and enforcement for up to two years after the QC records that contextualize them – monitoring results, root cause analyses and remediation evidence – could have been lawfully destroyed. At a minimum, the retention period must remain long enough for the PCAOB to identify deficiency patterns that only become visible across more than one inspection cycle. Take a triennially inspected firm inspected in 2027, 2030 and 2033. If the 2033 inspection identifies a monitoring failure and the inspectors need to establish whether the same failure existed two cycles earlier, the firm's 2027 records would already have been destroyable from 2032 under a five-year period but would have survived to 2034 under a seven-year period. The same gap impacts enforcement, where investigations may begin several years after the conduct. QC documentation relevant to an identified deficiency, or to an open inspection or enforcement matter, should therefore be retained until the matter is resolved. With a change in emphasis from engagement-level to firm-level inspections, we find it unusual to reduce the retention period of the level most likely to be inspected and relied upon.	**Q28 and Q29**

[8] AS 1215, Audit Documentation, paragraph .14 ("The auditor must retain audit documentation for seven years from the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements (report release date), unless a longer period of time is required by law").

[9] 17 C.F.R. § 210.2-06, which requires an accountant to retain for seven years all records relevant to an audit or review, including memoranda, correspondence and analyses, not only workpapers.

9	**COMPARABILITY RISK FROM FIRM-SELECTED EVALUATION DATES**	Allowing firms to select their own annual QC evaluation date, rather than a single Board-set date, would better align the evaluation with each firm's fiscal year and other quality-management cycles. The Supplemental Request's own analysis confirms this reflects existing practice: most firms disclosing an evaluation date under EU transparency rules, including most annually inspected firms, already evaluating as of a date other than September 30, typically aligned with their fiscal year-end. We do not object. Our residual concern is narrower. Timing should not become a tool for managing findings: a firm should not be able to use its initial selection, or a later change of date, to defer capturing known or anticipated inspection findings within an evaluation period. The proposal contains useful guardrails – reporting periods run consecutively from one evaluation date to the next, so no period escapes evaluation altogether, and any change of date must be reported on Form QC within 30 days, together with the firm's rationale. We ask the Board to commit to scrutinizing those rationales and to state in any adopting release that a change of date made to defer recognition of known or anticipated findings would itself evidence a QC deficiency. We also note that the proposed five-month minimum before a firm's first evaluation (Q20), combined with a free choice of date, could defer some firms' first evaluation well into 2028 on the Board's own example; the Board should set an outer limit so that every firm completes its first evaluation within a reasonable period of becoming subject to the standard. We regard this as a lower-priority item: our interest rests with the nature and description of the findings an evaluation produces, and the conclusions it supports, rather than with its date.	**Q19 and Q20, also relevant to Q25**

10	**READINESS OF FIRMS BEFORE TAKING ON ISSUER ENGAGEMENTS**	We do not object to rescinding the requirement that a firm design a QC system when it neither performs nor intends to perform PCAOB engagements. Requiring firms to build compliance infrastructure for work they may never undertake imposes cost without a corresponding investor benefit. Rescission does, however, create a timing question the proposal leaves open. Under the amendments, the obligation to have a QC system arises only once a firm performs or is required to perform an engagement under PCAOB standards – by which point it may already be performing issuer work. A QC system cannot be designed and made operational overnight, and the first investors served by a newly active firm should not bear the risk of a system still under construction. We therefore ask the Board to specify an earlier trigger – for example, when a firm bids for or is appointed to issuer or broker-dealer work (the subject of Question 3) – by which a compliant QC system must be designed and operating, well in advance of the firm commencing that work. We also answer Questions 30 and 31 affirmatively: a firm's registration application on Form 1 should disclose which quality management standard, if any, its existing QC policies follow. If the design-only requirement is rescinded, this low-cost disclosure preserves basic visibility – for the Board and for investors – into the QC foundation a registered firm will build on if it later accepts issuer or broker-dealer work.	**Q1 – Q3, also relevant to Q30 and Q31**

11	**COST, SCALABILITY, SMALLER FIRMS, EGCs, AND AUDIT FEES**	The Board is seeking data on the costs firms have incurred and expect to incur, whether those costs are likely to flow through to audit fees and whether smaller firms and Emerging Growth Companies (EGCs) are affected disproportionately. We support the Board's objective of removing costs that do not serve audit quality. We ask the Board to demonstrate, rather than assume, that any cost savings will reach the companies and investors who ultimately bear audit costs. Cost savings retained by firms should not be assumed to constitute investor benefits, and the two should not be equated in the final economic analysis without evidence of pass-through to audit fees. We also ask the Board to disclose the methodology behind any cost estimates it relies on in that analysis, given the unresolved methodological disputes already in the public comment file for this docket (addressed further under Observations on the Economic Analysis below). The references in the proposal to smaller firms, audit fees, and Emerging Growth Companies could be read to suggest that retaining QC 1000's requirements would impair capital formation. QC 1000's requirements, and their costs, operate at the level of the firm, not the level of its clients; connecting them to capital formation for any category of client requires evidence at each step of that chain, which the proposal does not provide. The Supplemental Request provides counts of firms by the number of issuers they audit; it does not pair those counts with the market capitalization audited by each category or show where EGC audits actually sit across the categories. If the Board believes size-based effects are real, it should complete that picture, so that the cost-benefit case can be evaluated on a properly segmented basis rather than by generalized reference to smaller firms and EGCs. That is the request we make throughout this letter: demonstrate, with evidence.	**Q32 – Q37, with links to Q2, Q7 – Q10, Q17, Q19, Q20, Q28 and Q29**

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OBSERVATIONS ON THE ECONOMIC ANALYSIS

In the **Appendix** we have included a brief, more investor-friendly summary of the approximately 30 page economic analysis in the Supplemental Request for Comment. Below we summarize our views on that economic analysis.

The PCAOB's economic analysis is, by its own admission, largely qualitative. Quantifying the benefits of quality-control requirements is genuinely difficult, because those requirements are designed to reduce the likelihood of failures that may not otherwise be visible. That said, the Board made its decision in May 2024, after full notice-and-comment rulemaking supported by an economic analysis. We are not convinced this economic analysis makes a compelling case that the decision was wrong: the only firm-level implementation cost estimates analyzed are those supplied by the Center for Audit Quality – an organization representing the audit profession – and no attempt is made to weigh what investors would give up and the costs to investors of such revisions.

From our review of the economic analysis, we see gaps, omissions or problems that raise questions for investors and need to be considered by the Board, as follows:

- ***Effects of Rescinding the EQCF –*** There is no direct evidence on the effect of rescinding the External QC Function, as the Supplemental Request itself acknowledges. The only cost information provided is compensation benchmarks for a role that the largest firms already staff (i.e., with individuals performing a similar function and whose compensation the firms already pay). Many of the costs in establishing the EQCF or similar advisory functions have likely already been incurred, yet they are presented as though they are new, and the analysis never identifies what rescission of the EQCF requirement would actually save for each firm going forward. Spread across the thousands of audits each of these firms performs the amount is likely immaterial. And such EQCF represents the single clearest structural safeguard investors have over the firms auditing nearly all of U.S. public market capitalization.

- ***Investor Benefit from the Savings*** – There is no quantification of whether the hypothetical cost savings the Board expects firms to realize will flow through to lower audit fees for the companies whose investors ultimately bear those costs, as opposed to being retained by firms.

- ***What Is the Impact of These Changes on Audit Quality for Investors*** – More importantly, the economic analysis does not provide a quantitative assessment of the impact on audit quality and the costs for investors. The Supplemental Request restates the investor-protection rationale for which QC 1000 was adopted and names the economic tradeoff – reduced firm costs against the risk of weakened QC effectiveness and audit quality, but it never measures that tradeoff, or even assesses it qualitatively, provision by provision. An analysis that catalogues the savings to firms while assigning no value to the protections given up is not a cost-benefit analysis; it is a cost inventory.

- ***Measurement-Driven Improvement in QC Conclusions*** – The revised evaluation framework or threshold makes favorable conclusions easier to reach. Over time, Form QC filings may therefore show improvement that reflects the change in the measuring stick rather than any change in audit quality. The analysis nowhere addresses the cost to PCAOB oversight of that loss of information.

- ***The PCAOB Should Perform Its Own Cost Estimates and Not Rely Solely on the Audit Profession's Submissions*** – This is the problem beneath all the above: each of these questions must ultimately be answered with cost evidence. However, the only estimate, provided in the public record, of the audit firms' implementation and operating costs comes from the profession being regulated. These data are supplied by the CAQ in its March 2026 cost-data submission, based on estimates from nine member firms (Supplemental Request, page 57, footnote 111). The CAQ is an audit-profession advocacy organization, and cost estimates supplied by regulated firms in opposition to a requirement should be closely scrutinized and independently validated. The Board's only independent contribution to cost is the compensation benchmark data for the EQCF role, which the Board itself describes as an imperfect proxy.

  The CAQ reported average one-time QC 1000 implementation costs of $18.9 million and ongoing costs of $12.1 million, but the participating firms used differing methodologies (Supplemental Request, note 111, page 57[10]) and assumptions that were not disclosed – a limitation the CAQ itself acknowledges. Such differences make the estimates impossible to compare or evaluate. At least one comparison in that submission also appears to overstate the incremental burden. The CAQ asserts that QC 1000 costs are approximately 224% of what firms spend on ISQM 1 (Supplemental Request, note 111, page 57) but the two sides of that comparison do not measure the same thing. For QC 1000, the CAQ counts both the one-time implementation costs and the ongoing annual costs; for ISQM 1, it counts only the ongoing costs, leaving out what firms originally spent to implement ISQM 1. Comparing everything on one side with only part of the other inevitably makes QC 1000 look far more expensive than a like-for-like comparison would.

  More fundamentally, these figures measure the wrong thing. They are the costs of implementing QC 1000 as adopted – costs that, for the largest firms, have already been substantially incurred or committed. The rescission proposed herein cannot recover those sunk costs. The economic case for these amendments can rest only on avoidable future costs, netted against the investor protections given up. The Supplemental Request neither isolates the avoidable portion nor attempts that netting. Investors cannot evaluate a cost-benefit case built on estimates the Board itself questions. We ask the PCAOB to perform and publish its own cost estimates that are comparable and methodologically transparent before finalizing any amendment justified primarily on cost grounds.

[10] See also: https://thecaq.wpenginepowered.com/wp-content/uploads/2026/03/caq_letter-to-PCAOB_QC-1000_insights-and-costs.pdf

- ***Other Considerations (Smaller Audit Firms, Smaller Issuers and Scalability) –*** Throughout the economic analysis, the Board conflates several different things: what happens to small audit firms; what happens to small issuers; the market capitalization those issuers represent; and the market capitalization of small issuers audited by small audit firms. The analysis shifts between these categories without building the bridge into scalability, so that the Board and investors are not talking the same language – the Emerging Growth Company discussion is the clearest example. It is discussed at length for a population representing well under one percent of U.S. market capitalization, with no link drawn from these firm-level amendments to EGC capital formation.

  Any final economic analysis must address all dimensions – the firms, the issuers, the market capitalization at stake and the market capitalization audited by small firms. The economic analysis must be segmented accordingly because the amendments affect each segment differently.

  Two principles from our earlier letters bear repeating in the context of needing a segmented economic analysis.
  - First, as we said in our May 2020 letter, scalability should not mean that investors accept a lower or less consistent standard of audit quality from smaller firms; users of financial statements expect the same quality of audit regardless of the size of the audit firm or of the audited company.
  - Second, as we observed in our September 2025 letter, the impact of standards on smaller firms and smaller companies is frequently overstated by the auditing profession as a means of delaying PCAOB standard setting and rulemaking. The audit market is an oligopoly by design; little information exists to evaluate audit quality, which creates herding toward the Big 4 in auditor selection, yet the smallest firms are invoked as the reason not to move forward.

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OUR CONCLUSION

CFA Institute has supported strong, enforceable quality control standards for more than a decade, from our 2016 letter to the IAASB through the adoption of QC 1000 in May 2024 and our opposition to its delay in September 2025. A little more than two years after adoption, and before the standard has taken effect, the Board proposes in a consultation providing only a 20-business-day comment period – and without documented investor outreach – to remove or weaken several of its most important investor-protection-focused provisions – the External QC Function; the breadth of the similar-deficiency evaluation; the rigor of the evaluation conclusions; and the severity signals reported on Form QC without new evidence that the judgments the Board made in 2024 were wrong.

Consistent with the positions set out in this letter, we do not object to the amendments that reduce compliance cost without reducing audit quality. Those amendments include:

- rescinding the **design-only requirement** (i.e., subject to the readiness trigger and Form 1 disclosure we request) for audit firms not currently performing public company audits (Concern #10);
- **retaining QC documentation in firms' original systems of record** (i.e., provided records remain promptly retrievable) (Concern #8);
- use of f**irm-selected evaluation dates** (i.e., with safeguards against timing changes that avoid inspection findings) (Concern #9); and
- **website-based metric explanations** (i.e., with requirements that they be kept accurate and current over time, with stable, archived and year specific in-report hyperlinks and prominent identification of changes and presentation of comparable historical metrics) (Concern #6).

On **documentation retention**, we request that the Board reconsider the reduction to five years, which would leave QC records eligible for destruction two years before the engagement workpapers they contextualize. This seems inconsistent with the legal requirements to retain audit workpapers for seven years (Concern #8).

Our opposition is strongest where, in most instances, we believe the economic analysis supporting a change is weakest, as noted below.

- The Board acknowledges it has no direct evidence on the cost to audit firms of **the EQCF function** nor the effects of rescission to investors. On the cost side, it relies on incomplete information from the auditing profession. Further, there is no analysis of the impacts of rescission of the EQCF function on investors. The Board notes, however, in the Supplemental Request that the five largest of the affected firms alone audit approximately 98% of U.S. public market capitalization (Supplemental Request, page 22). Accordingly, it seems repealing the EQCF function requirement for the largest firms – which already have, similar but not the same, functions and existing costs – would not meet a cost-benefit test when considering the concentration of market capitalization audited by the largest firms (Concern #1).
- CFA Institute supports **giving firms flexibility to assign QC role**s to the most qualified individuals and to divide responsibilities where doing so improves the work performed.

That said, there remains a need for an ultimate point of accountability. We do not support assigning QC roles to personnel outside the firm – other than the EQCF. Our preference is for QC responsibility that is centralized and appropriately delegated, not dispersed. When everyone owns something, no one owns something. The Board's own economic analysis concedes both risks we identify. It acknowledges that where responsibilities are divided, subcomponents may inadvertently never be assigned, and that an individual outside the firm may have incentives that are not aligned with the firm's interests. Investors need assurance that accountability is not diffused when responsibilities are divided (Concern #2).

- On the **narrowed deficiency triggers**, the analysis offers no data or analysis on which deficiencies would stop being checked for similar deficiencies on other engagements at the audit firm. With a 19% Part I.A deficiency rate on randomly selected 2024 audit firm inspections (Supplemental Request, page 73) we struggle to see how narrowing the lens through which systemic issues would be identified is justified – particularly when the PCAOB has noted its preference to move its emphasis from engagement-level to firm-level inspections where deficiencies are not publicly disclosed (Concern #3).
- As it relates to **compensating responses**, the proposed amendment to the definition of a QC deficiency would allow a firm to conclude that no deficiency exists where other quality responses – when considered together – achieved the relevant objective, even if one specific response failed. We do not object to the principle that overlapping controls should be considered realistically. We are concerned, however, that without a documented, inspectable basis for concluding that a "compensating response" actually operated effectively, this amendment risks becoming a way to explain away deficiencies rather than a genuine test of whether investors remain protected (Concern #4).
- On the **revised evaluation framework**, the Board's own evidence related to EU transparency reports undercuts its proposal. When firms grade themselves, the grades come out better than the inspections do; making favorable conclusions easier to reach will only widen that gap. We ask the Board to: reject the binary alternative; retain a conclusion structure in which an unqualified "effective" means no unremediated QC deficiencies; retain the escalation presumptions in some form; and clarify how serious QC issues that fall short of overall ineffectiveness will be escalated and communicated if the "major QC deficiency" concept is removed (Concern #5).

On **cost, scalability, smaller firms, EGCs and audit fees,** the discussion, analysis and relationship to capital formation are unclear (Concern #11).

If the Board nonetheless proceeds, it should conduct direct investor outreach and publish the segmented, methodologically transparent economic analysis this letter describes before finalizing any amendment. Our request is the same throughout: the PCAOB needs to demonstrate the case for change with evidence.

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Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org or Manoj Mahanama at manoj.mahanama@cfainstitute.org.

Sincerely,

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APPENDIX

INVESTOR-FOCUSED SUMMARY OF THE ECONOMIC ANALYSIS

The PCAOB's economic analysis argues that the proposed amendments would reduce compliance costs and improve scalability. This appendix summarizes that analysis section by section; the investor notes within each section tie the Board's analysis back to the positions and problems set out in the body of this letter.

1. BASELINE AND ANALYTICAL APPROACH

The PCAOB uses QC 1000 as already adopted and SEC-approved as the baseline, not the pre-QC 1000 status quo. That matters because the economic question is not "Does QC 1000 impose costs?" but rather "Would these amendments reduce costs or change benefits relative to adopted QC 1000?" The Board says the amendments could allow many firms to avoid some design and implementation costs but notes that implementation costs may already have been incurred and likely could not be recovered.

The PCAOB reiterates the original investor-protection rationale for QC 1000: better compliance with professional and legal requirements, a more integrated QC system, stronger accountability, and enhanced PCAOB inspection and enforcement.

It also recognizes the economic tradeoff: reducing firm costs could benefit audited companies through lower audit fees but weakening QC-system effectiveness could harm audit quality and financial reporting quality.

Investor note: The Board asserts that reduced firm costs could benefit audited companies through lower audit fees but does not quantify this pass-through anywhere in the release. The body of this letter treats this as one of the central unfilled gaps in economic analysis.

2. FIRM POPULATION AFFECTED

The staff's population analysis covers 1,489 PCAOB-registered firms as of March 31, 2025, excluding firms with withdrawal-pending or suspended status (Supplemental Request, pages 54 and 61). Of those, 755 are classified as "full-implementation" firms and 734, or 49%, are classified as "design-only" firms.

The "design-only" category is central to the analysis because the proposal would rescind the requirement that these firms design a QC 1000-compliant system before they perform PCAOB engagements.

Only 12 of the 1,489 firms in the sample issued audit reports for more than 100 issuers during the 2025 reporting period: 5 issued reports for more than 500 issuers, and 7 issued reports for 101-500 issuers.

This matters because the EQCF requirement applies only to firms above the 100-issuer threshold, and any alternative 500-issuer threshold would affect only the five largest firms.

Investor note: The Board proposes to eliminate the EQCF precisely where it matters most yet provides incomplete market capitalization for these categories. The analysis should pair each firm-size category with both the number of issuers audited and their market capitalization. In the body of this letter, under the Observations on the Economic Analysis, we request such stratification.

3. RELATIONSHIP TO ISQM 1 AND SQMS 1

A key economic assumption is that many firms already operate, or are preparing to operate, under other quality management standards such as ISQM 1 or SQMS 1. The PCAOB therefore treats some QC 1000 costs as incremental to systems firms may already have. It cites staff analyses indicating that many U.S. firms are in the AICPA peer review program and many non-U.S. firms are affiliated with audit networks or are in jurisdictions with ISQM 1 or similar quality management standards.

The PCAOB discusses cost estimates from the CAQ 2026 letter but treats them cautiously. The CAQ reportedly provided estimated cost data from nine member firms (which the CAQ states collectively audit 99.6% of U.S. market capitalization) and reported average estimated one-time QC 1000 costs of $18.9 million and ongoing costs of $12.1 million, but the PCAOB says the use of different and undisclosed methodologies makes the estimates difficult to evaluate (Supplemental Request, note 111, page 57). It also notes that one CAQ percentage comparison may be inflated because it includes one-time QC 1000 costs in the numerator but not comparable one-time ISQM 1 costs in the denominator.

Investor note: The Board's analysis relies on two assumptions that investors should treat with caution. First, reliance on the AICPA peer review program as evidence of existing quality management is inappropriate; peer review is a profession-run process whose track record does not approach PCAOB-grade independent oversight, and it cannot carry the mitigating weight the analysis assigns it. Second, although the Board appropriately identifies methodological limitations in the CAQ's cost estimates including differing and undisclosed methodologies and an inflated comparison between QC 1000 and ISQM 1 costs, it nevertheless relies on those estimates because no independent cost evidence is available.

4. REGISTRATION ACTIVITY AND WITHDRAWAL CONCERNS

The PCAOB examines whether QC 1000 is causing firms to withdraw from registration. It finds an uptick in withdrawal requests in 2025: 154 withdrawal requests were filed, more than any year since 2020, and 7% of those 154 requests (roughly 11 firms) cited QC 1000 as a reason. (Supplemental Request, page 58.) The trend was more pronounced for design-only firms: 10% of design-only withdrawal requests cited QC 1000, compared with 3% of full-implementation firm withdrawal requests.

At the same time, the PCAOB says registration applications have not declined in recent years and were highest in 2024, the year QC 1000 was adopted. The Board therefore does not conclude that QC 1000 has broadly depressed new registration activity, though it acknowledges applications could decrease after QC 1000 becomes effective.

Investor note: The withdrawal narrative is small in absolute terms – approximately 11 firms, mostly design-only and does not, by itself, justify amendments affecting the largest firms that audit nearly all U.S. market capitalization.

5. RESCINDING THE DESIGN-ONLY REQUIREMENT

The PCAOB's main cost-reduction argument concerns design-only firms, but it does not quantify any savings. These firms make up nearly half the registered-firm population, but the PCAOB says their current role in the issuer and broker-dealer audit market is relatively limited. Design-only firms did not lead or play a substantial role in any engagements during the 2019-2025 reporting periods, although 35 design-only firms, or 5%, provided at least 5% of total audit hours on audits of 51 issuers during the 2025 reporting period.

The proposed amendment would reduce or eliminate QC 1000 design costs for these firms. It could also encourage firms to remain PCAOB-registered or re-register, potentially increasing audit-market supply and competition. The PCAOB notes that roughly 8% of firms classified as design-only in 2020 later reported a lead or substantial role at least once over the following five reporting periods, suggesting that some design-only firms later enter the PCAOB audit market.

Investor note: The investor-protection risk is that firms that do not voluntarily design a QC 1000 system may be less prepared if they later accept PCAOB engagements. The PCAOB says this risk may be mitigated because firms seeking to compete for PCAOB engagements would have incentives to design a QC 1000-compliant system voluntarily, and many may already have systems based on ISQM 1 or SQMS 1.

The Board does not quantify the savings. It notes that roughly 8% of firms classified as design-only in 2020 later took on a lead or substantial role. That proportion is small, which supports the Board's view that these firms play a limited role today, but it is not zero, and it is the firms in that 8% for whom a readiness requirement matters. The analysis should be based on both the number of issuers audited and their market capitalization.

We do not object to the rescission but, consistent with our May 2020 letter, scalability should not mean investors accept a lower or less consistent standard of audit quality from smaller firms. That is why the body of this letter asks for a clear trigger point before a firm accepts issuer or broker-dealer work and for Form 1 disclosure of the quality management standard underlying a firm's existing QC policies.

6. ROLES AND RESPONSIBILITIES

The PCAOB says allowing certain QC roles to be assigned to non-firm personnel or divided among multiple individuals could reduce restructuring costs and improve effectiveness where responsibilities require specialized expertise. This could be especially helpful for small firms. The staff found that 4% of full-implementation firms have only one accountant, and 13% have two to 10 accountants.

The PCAOB also acknowledges risks: responsibilities could be omitted, duplicated, or poorly coordinated; external personnel may have incentives that are not aligned with the firm; and non-firm personnel may be less familiar with the firm. The Board says these risks are mitigated by requirements that assigned individuals understand and be accountable for their roles and have the experience, competence, authority, and time needed to perform them.

Investor note: Investors are less concerned with which individual performs an operational quality control role as long as the individual is not external to the firm and accountability remains clear, complete, and inspectable. Where responsibilities are divided, the Board should ensure there is always a clearly identified individual with ultimate accountability and that the allocation of responsibilities is transparent to the PCAOB. As discussed in the body of this letter, flexibility should improve expertise – not dilute ownership or accountability.

7. EXTERNAL QC FUNCTION

The proposed rescission of the External QC Function is one of the most economically significant changes for the largest firms. The PCAOB says the requirement has proven more difficult and costly than originally anticipated, citing concerns about liability, a limited pool of qualified and conflict-free individuals, and implementation challenges. Eliminating the requirement would reduce costs of hiring, retaining, and compensating external QC individuals.

The PCAOB provides compensation benchmarks. For U.K. independent non-executives at PCAOB-registered audit firms, annual remuneration ranged from $25,935 to $387,288, with an average of $141,691. For Big 4 firms, the average was $180,850; for other firms, $110,364. The PCAOB also cites market research showing average 2025 S&P 500 non-employee director compensation of $336,352, while noting that this is an imperfect proxy for the EQCF role.

The major investor-protection concern is that eliminating the EQCF could remove an independent check on commercial pressures in decision-making concerning the QC-system. The PCAOB acknowledges this risk but says it may be mitigated by governance and leadership quality objectives and by the fact that 9 of 13 annually inspected firms already have an independent individual serving in an advisory role, though such a role does not carry the EQCF's defined responsibility to evaluate the firm's QC conclusions. Importantly, the PCAOB states that it is not aware of evidence directly bearing on the impact of rescinding the EQCF requirement; it relies instead on compensation data and indirect academic research on board independence.

Investor note: The Board itself states it is not aware of evidence directly bearing on the impact of rescinding the EQCF and relies instead on non-employee director compensation data that the Board itself acknowledges is an imperfect proxy. This is the single largest evidentiary gap in the Board's economic case, and the body of this letter opposes rescission on that basis. Using the Board's own benchmarks, the cost of an EQCF function at each of the largest firms – roughly the compensation of a small number of non-executive directors – is immaterial against the thousands of audits each performs. 9 of 13 annually inspected firms already involve an independent individual in an advisory capacity, which does not carry the EQCF's defined evaluation responsibility, suggesting the marginal cost of the mandate is modest; and the Board concedes it has no evidence of the impact of rescission. Given the EQCF is a modest cost, largely already borne, its removal from QC 1000, without meaningful evidence of benefit, begs the question: why make this change?

8. INFORMATION AND COMMUNICATION / METRICS

For metrics communications, the PCAOB's economic argument is that simplifying the requirements should reduce costs when firms disclose written metrics to external parties on a non-public basis. The Board expects limited negative effects because recipients may already understand the metrics or may be able to request additional information directly from the firm. It also suggests the lower cost of disclosure could encourage firms to provide more non-public written metrics.

Investor note: The key limitation is that this part of the analysis is focused mainly on non-public communications, not broader public audit-quality transparency. The logic runs backwards. If a firm already explains its publicly disclosed metrics, providing the same explanation to a non-public recipient would generally involve low incremental cost; and an amendment the Board expects to encourage more non-public written metrics moves audit-quality information away from investors, not toward them.

9. MONITORING AND REMEDIATION

The proposed amendment would require firms to evaluate whether similar engagement deficiencies exist only when the identified deficiency could result in a failure to obtain sufficient appropriate evidence or an inappropriate overall conclusion. The PCAOB says this would reduce costs because firms would perform similar-deficiency evaluations in fewer cases. It also acknowledges that some engagement deficiencies could go undetected, and fewer identified deficiencies means fewer occasions on which root cause analysis is performed.

The PCAOB's mitigating argument is that the narrowed requirement focuses firms on deficiencies more directly related to audit quality, and that firms must still operate monitoring and remediation processes capable of timely detecting engagement deficiencies. For context, staff estimated that the 2024 Part I.A deficiency rate was 19% among randomly selected engagements, with an average of four unique Part I.A deficiencies per inspected engagement in those cases (Supplemental Request, page 73).

The proposal also revises the QC deficiency definition to permit consideration of compensating quality responses. The PCAOB says this should reduce uncertainty and remediation costs by causing fewer QC observations to qualify as QC deficiencies, while posing negligible risk where other responses address the relevant quality risk.

Investor note: This section describes two separate changes, and both need the same discipline. On the narrowed trigger, confining the look-across to deficiencies capable of affecting the evidence or conclusion means that recurring compliance failures, which the Board itself gives as examples, would no longer prompt a firm to check whether the same problem exists elsewhere. On compensating responses, the amendment is acceptable only if the firm documents an inspectable basis for concluding that other responses actually achieved the quality objective, as QC 1000.82 already requires. In both cases the risk is the same: fewer questions asked internally and fewer deficiencies are likely to be detected.

10. EVALUATION DATE AND QC SYSTEM CONCLUSIONS

The PCAOB proposes allowing firms to choose their own annual QC evaluation date rather than requiring a September 30 evaluation date. The economic benefit is lower cost and better alignment with firms' fiscal years or other quality management frameworks such as ISQM 1. In a staff sample of firms with EU transparency reports, 79% used an evaluation month other than September, including 86% of annually inspected firms in the sample (Supplemental Request, page 74).

The PCAOB also proposes revising the QC evaluation conclusions to align more closely with other quality management standards. The Board says this could reduce confusion and allow firms to leverage ISQM 1 or SQMS 1 evaluation processes. But it acknowledges the amendment would likely broaden the circumstances in which firms could reach favorable conclusions about QC-system effectiveness.

The PCAOB reviewed 25 firms' EU transparency reports: 21 concluded their QC systems were effective, 4 concluded they were effective except for certain matters, and 0 concluded they were not effective. The PCAOB notes that some of these firms had Part II deficiencies in their most recent PCAOB inspection reports, but cautions that ISQM 1 criteria, timing, and scope may differ from PCAOB inspection criteria.

Investor note: On the evaluation date, we do not object; the Board's own sample shows most firms already evaluate at a date other than September 30, and our only concern is that a firm should not be able to select or change its date so as to defer capturing known findings.

On the evaluation conclusions, the Board's sample is the empirical basis for our concern in the body of this letter: 21 of 25 firms concluded their systems were effective and none concluded otherwise (Supplemental Request, page 76), notwithstanding that some had quality control criticisms in the non-public part of their most recent PCAOB inspection reports. There is also a tension in the Board's own reasoning. It proposes to align PCAOB evaluation conclusions with ISQM 1 while cautioning that ISQM 1 criteria, timing and scope differ too much from PCAOB inspections for the comparison to be meaningful. If ISQM 1 results are not comparable evidence, they are not a basis for alignment either.

11. DOCUMENTATION

The PCAOB says simplifying QC documentation retention requirements would reduce costs related to IT systems, data gathering, data transfer, and retention. It does not expect these changes to negatively affect QC-system effectiveness or PCAOB oversight.

The proposal would also reduce the QC documentation retention period from seven years to five years. The PCAOB acknowledges that a shorter period would reduce information available to firms and the PCAOB, potentially affecting firms' ability to analyze QC performance over time. But it concludes that older QC documentation is less salient and that shortening the period by two years should not significantly impair firm monitoring or PCAOB oversight.

Investor note: The systems to gather, transfer and retain this documentation are being built to meet the adopted standard; the prospective savings from shortening retention are marginal, while the mismatch with the seven-year requirement for engagement documentation under AS 1215 and SEC Rule 2-06 is real and lasting, as we explain in our response on documentation retention above.

12. DIFFERENTIAL EFFECTS BY FIRM SIZE

The PCAOB expects the amendments to affect firms differently as noted below:

- Eliminating EQCF would benefit only larger firms.
- Rescinding the design-only requirement would primarily benefit design-only firms, which generally have smaller PCAOB practices.
- Other changes, such as flexible role assignments, flexible evaluation dates, and narrowed similar-deficiency evaluations, would apply to all firms.

Some cost savings are fixed in nature and may matter more to smaller firms because they have fewer engagements over which to spread fixed QC costs.

The PCAOB notes that design-only firms have fewer accountants than full-implementation firms: a median of 30 accountants, compared with 123 for full-implementation firms. Other cost savings, such as reduced similar-deficiency evaluation work, may scale with audit-practice size and therefore benefit larger and smaller firms more proportionately.

Investor note: As we observed in our September 2025 letter, the impact of standards on smaller firms and smaller companies is frequently overstated by the auditing profession as a means of delaying PCAOB standard setting; we ask the Board to contextualize the population of affected firms and the market capitalization of the entities they audit in any final economic analysis.

13. EMERGING GROWTH COMPANIES

The PCAOB identifies 2,599 EGCs as of the measurement date (Supplemental Request, pages 80-81), including 1,458 exchange-listed EGCs with total U.S. market capitalization of $406 billion. Those exchange-listed EGCs represented about 26% of all exchange-listed companies but only 0.7% of U.S. total market capitalization; 41% of EGCs reported no revenue or identified as shell companies.

The PCAOB says 260 registered firms audited EGCs; 214 of those firms audited both EGC and non-EGC issuers and collectively audited about 97% of EGCs. Fifteen firms issued audit reports for more than 100 issuers and audited about 50% of EGCs.

Investor note: The Board is right that a reduction in audit quality could matter more for EGCs, which tend to be smaller and to have shorter reporting histories, so information asymmetry is greater. That is an argument for maintaining audit quality at these companies, not for relaxing it. The EGC discussion instead appears in support of the amendments, without any link drawn between these firm-level changes and EGC capital formation, and against a population representing 0.7% of U.S. market capitalization. As we say in the body of this letter, invoking small companies is not a substitute for evidence.